THE NEW YORK STOCK EXCHANGE

H. S. MARTIN

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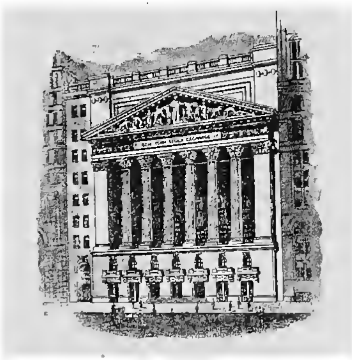
A Discussion of the Business Done; Its Relation to Other Business, to Investment, Speculation and Gambling; the Safeguards Provided by the Exchange, and the Means Taken to Improve the Character of Speculation.



By H. S MARTIN
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"The New York Stock Exchange and the Money Trust"

"The Exchange as Seen from its Gallery"

New York
1919

Typography, Presswork and Binding
by Francis Emory Fitch, Incorporated,
of Forty-Seven Broad St., New York

Broad Street In 1797

From the rare George Holland print owned by the Stock Exchange Luncheon Club.

The building at the head of Broad Street is Federal Hall, in which General Washington was inaugurated as first President of the United States, in 1789; the Sub-Treasury now stands on that site. The street at the top of the cut is therefore Wall Street, while that at the lower left-hand corner is Exchange Place. The nucleus of the Stock Exchange met in those days at Tontine Coffee House, corner Wall and Water Streets. The present Exchange occupies most of the block covered by the houses on the left-hand side of cut.

FOREWORD

The Beginning of the Exchange

The New York Stock Exchange can be said to have been begun 125 years ago—100 years of which it has passed under a formulated Constitution. Its beginning was three years after the adoption of the Constitution of the United States and the first meeting of Congress, three years after George Washington first took the oath of office as President; before coal had come into common use, while houses were still lighted by candles; 33 years before the first steam railroad; 53 years before the first telegraph message; 64 years before the first ocean cable; 74 years before the first telephone—when the whole population of the country was less than that of New York City now; when the country's area was not one-fifth of what it is at present; when not even the wildest dreamer could have imagined trains running at sixty miles an hour, wireless telegraphy, articulated speech transmitted thousands of miles, aerial navigation, or the gigantic business enterprises of the minute.

Business on the Exchange

The Exchange is the great security market of this country; the business done upon its floor is wide-spread in its interest and effect. The Hughes Committee reported in 1909 that "only a small part of the transactions is of an

investment character." The 1912 Congressional Committee reported "that in large measure transactions on it are purely speculative."

Gambling or Business Place

Is it a gambling place, as some assert, or a necessary link in the financial chain, as others claim? Is speculation any different from business? Is speculation the same as gambling, or is there a wide difference? If speculation is not gambling, should it be restricted because of inherent tendencies toward evil? If not restricted should it be encouraged, and its fundamental principles taught? Does speculation in stocks differ from investment? Is cash speculation less of an evil than margin speculation? Is selling for a decline, or shortselling an evil? Ought speculation and the Exchange be controlled by Government? These and other questions arise and should be examined into.

Results of Examination Into These Questions

Examination shows that all business is speculation, and that the business of speculation is a trade, just as any other business is a trade; that to be successful in a business or trade, the laws of that business or trade must be known and followed. Examination also shows that the laws of business govern in speculation; that what causes success or failure in business causes it equally in speculation; that while unhappy and regrettable results have followed foolish speculation by unfitted persons, earnest men have sought, have partly provided, and are seeking further provision against their occurrence.

Progress—Impossible Without Speculation

Examination also shows that most men are conscious or unconscious speculators—either they personally use their money in speculation, or others use it for them; that the great business nations are the great speculating nations—that progress is impossible without it; that a nation without Stock Exchanges is a nation without commerce or advancement. Examination also shows that investment and speculation differ in no essential details; that speculation is never gambling, and gambling is never speculation—their nature is unlike, their results dissimilar; that the very wide distribution of material wealth, the constantly increasing per capita of wealth, have flown out of speculation. Examination also shows that progress would have been impossible without the formation of corporations and the invention of the stock certificate; that these have made it possible for the poorest and least intelligent to become partners in business with the richest and most intelligent; that the Exchange has been the great instrument in producing this result; that it has helped honesty in trade; has steadied prices; has put the man with small capital on the same footing in trading as the man with large capital; and it has tried to earn the good will and high regard of its neighbors. Examination also shows that while

Integrity

now and again an unworthy member is discovered, the standard of integrity and business morals on the Exchange is as high as in any business in the world. Examination also shows that the interest of the Exchange has always been to lessen unwise specu-

lation, to secure honest corporation management, to safeguard stockholders; that it has been the pioneer in efforts towards those ends, and has secured more in this direction than the acts of the Federal and State Governments; and that its rules are intended to prevent, and its Committees are working for the prevention of wrongdoing and of unwise speculation.

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ILLUSTRATIONS

PREJUDICE AGAINST MARKETS

"In this age of the world, are we to shut our eyes to every teaching of the English speaking race? Are we to confess ourselves more ignorant than were our forefathers two hundred years ago? What is the history of English commerce? What has enabled it to grow and prosper, carry on its wings the light of civilization and religion and truth, all over this world? What has done it, sir, but the energies of the great commercial bodies of the world, speaking through their chambers of commerce and their boards of trade?" Senator (now Chief Justice) White, United States Senate, 1892.

Origin of Speculation

Speculation was born when men first exchanged one desirable object for another—eatables for wearables, necessities for ornaments. As intercourse widened, and means of communication increased, the exchange of these commodities became the vocation of certain men—natural traders; gradually this class of men bought ahead and stored for future sales, or sold ahead and bought for future delivery; to do this they must possess exchangeables of equal or about equal value to the commodities thus bought or sold.

Origin of Money

These possessions, if of similar bulk to those to be traded in, would require much space for storage. As ornaments were more compact in form and represented greater skill to produce, they became standards of value; the metals of which they were made and the glittering shells or stones with which they were set also became standards; thus iron, copper, silver, gold and precious jewels became the money of trade.

Organization of Business

The acquirement of these forms of wealth in amounts large enough to carry on the business thus developing necessitated protection against marauders and the ability to readily handle this wealth. We, therefore, find a growth in two directions—first, organization for protection, and second, better means for effecting business operations. These have both led to the same result, although by widely separated steps, and over a long period of time; the first, by combinations of persons, resulting in the establishment of corporations; the second, by the invention of readily transferable, transportable and protectable evidences of interest, such as negotiable paper, checks and drafts, and bills of exchange, with the stock certificate as the ultimate form of easily transferable, readily transportable, and mcst easily safeguarded evidence of wealth.

Traveling Traders

These traders were, at first, local; but gradually peripatetic traders became common—originally the man with the pack, over small territory, then their fellowship (for protection, as shown) resulted in the caravan, composed usually of dealers in different kinds of goods. Soon their journeyings became periodic, and from them arose the seasonal fairs, which originating in the fargone ages, are still continued in many countries. No matter how great the despotism controlling the country, these fairs were not interfered with.

Fairs

These events were great educators—not only through bringing into a community unknown, and oftentimes wonderfully useful and attractive wares, but also because of the interchange of knowledge which followed. On the arrival of the traders, the villagers flocked around them—thus a greater number of people were brought together than by any other then known means. The value of a market was seen. Soon local farmers and merchants held stated meetings for the sale of their produce and products—and the modern market had its beginning.

Kinds of Markets

These markets were of two kinds, food markets, and goods markets—although they gradually became mixed. The food markets were held at short intervals, say weekly or oftener; the goods markets were held not more frequently than four times a year. The food markets became divided, by the kinds of foods offered for sale—highly perishable goods requiring frequent markets; while those less perishable, such as grains, eggs, butter, and the like, requiring less frequent markets.

Origin of the Middleman

On the adjournment of a food-market day, unsold produce would be bought by local dealers, for sale between market periods to local consumers, the dealer thus becoming a *middle man* between farmer and townsman. By this means, spoilage or wastage of produce was often reduced, and the consumer enabled to buy in smaller quantities and on more convenient occasions than on

market days, but, of course, at a higher price, due to expenses incurred by the dealer, such as rent, return on investment, his own and other labor, and the like. This heightened price has been the cause of much conflict between consumer and dealer. Many efforts have been made to obviate or reduce these price increases, such as co-operative stores and other combinations, each seeking to eliminate the storekeeper or middleman.*

Foundation of Education

The value to the world of these markets is beyond computation; to them resorted people of all classes, and this unhindered intercourse bore great fruit. Not only did the merchants display staple goods and those of the newest manufacture, and, by comparison, fix values and stabilize prices; but they disseminated news of the world. And it is not too much to say that the beginnings of liberty† arose from the traveling packmen and the growth of the local market.

Jealousy of Local Tradesmen

It must not be supposed, however, that these steps occurred as smoothly as the telling; where the traveling packman brought in goods of a design later or more attractive than those carried by the local tradesman a trade jealousy was aroused, the local dealer or producer feeling that, if outside competition could be prevented, he could get a higher price and surer sale for his goods.

*The establishment of the Parcels Post has a bearing on this matter, one hoped-for result of which was that direct contact between farmer and consumer would occur. This is too recent a development to permit of a general conclusion; but it is the opinion of some that in many cases, the farmer is enabled to charge city prices, with no material benefit in price reduction to the consumer. Through the operation of Produce Exchanges, the farmer knows the wholesale city price, and is enabled to fix an approximate retail price to his mail-order customer.

†See opinion of Chief Justice White (then Senator) on page 257.

Beginnings of Markets

"Each for himself," was the rule; a license fee was exacted of salesmen from other localities; and so deeply grounded did this feeling against outside competition take hold, that these fees continued in this country until within the past thirty years, when the Supreme Court of the United States decided it illegal to interfere with commerce by such taxes.

Wholesale Markets

The license fee referred to above, had its origin in the local market tax. The setting up of local markets was followed with rules for their management; the village authorities charged a tax to those who brought in goods for sale; later, standards for goods were established, and where goods were below standard, spoiled or unfit for consumption they might be destroyed and the sellers fined. At markets in the larger cities, it became impossible, because of the crowds, to bring the producer into contact with the consumer; so wholesale markets were established, in which only producer and dealer met and bargained and where the consumer was unseen.

Produce Packmen

The packman was originally a goods merchant; he soon discovered, however, that food products offered a field for profit; that prices of foods varied in communities not far removed from each other; and that by buying in bulk, he could sell at a profit in smaller quantity elsewhere—or that by buying a crop before it was ripened* he might

*The beginning of "Dealing in Futures."

find opportunity to sell it at maturity at a higher price; and to this class of business he sometimes turned his entire attention.

Food Control

To carry on this increased business, he needed more capital, and better hauling facilities than as a goods merchant; and partnerships arose as a result. The trader was a marked man, and because of his greater wealth, was taxed for that wealth by being charged local license fees. In addition, the taking from a neighborhood of food products,* caused the price of the remaining food to rise in cost, thus irritating neighborhood buyers. The question of food and its control, to the detriment of the consumer, is perhaps the most important of all questions to the majority of mankind; and soon laws were enacted against food monopolization, and the increase of food prices through such means.

Beginnings of Exchange

However, markets persisted; their value could not be gainsaid. The middlemen who bought up locally in quantities would meet in some central point, usually in the largest city of the country, and exchange their bargains, one selling to some one else nearer the point where the goods of the first were located, and buying from the other the goods nearest the first one's business headquarters, thus gaining a profit in addition to saving haulage. At these points of exchange it was found necessary to establish rules—rules as to standards of quality,

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*Such removals were made a criminal offense; men were pilloried and jailed for trading for profit in such goods. (See page 40.)

as to means of payment, as to delivery, as to who might be privileged, by reason of business standing, to buy and sell. Guilds, composed of merchants in the same business were instituted. Then the first grain exchanges were established. Against these bitterness arose;* producer and consumer each felt that a third party was exacting tribute from both.

Complaint against the Middleman

Broadly speaking, there is complaint only against the middleman in *food* products—against the man who comes in between the farmer and the consumer. While, in every other business middlemen exist, one hears no complaint about them. The farmer thinks the storekeeper cuts him down in *buying;* the consumer thinks the storekeeper puts the price up in *selling;* and complaint is made by both. The service by the storekeeper to the farmer, in buying in bulk and paying at once, is overlooked; the service to the consumer, in selling in small quantity, in making delivery, in giving credit, is overlooked. The middleman in food products *only* is complained against. And this complaint extends to the food exchanges. The middleman in dry goods, hardware, and other merchandise is not complained against.

Produce Exchanges

The value of exchanges to the world has been testified to by men of all classes, in all civilized lands; that point has been taken up under another heading. Here it may be said, that *except*

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*"It is a singular fact that markets have been the subject of popular prejudice and moral objection, almost in proportion to the perfection with which they economize time, transportation and effort, and equalize prices." —W. S. Jevons, *Theory of Political Economy*, 1891.

as to farm products, there are no exchanges for dealing in articles of household consumption; exchanges for dealing in food products therefore come under condemnation by those who look at surface conditions solely.

Stock Exchanges

The stock exchanges have become heir to the feeling against food exchanges, partly because of similar organization and membership, partly because of losses by those engaging in speculation on an unsound basis, partly because of stock practices not under the control of the Exchange, and partly because membership in both kinds of exchanges represent great capital. The Stock Exchange to many people is the embodiment of corporate wealth.

Struggle for Liberty

The struggle for liberty, which has been in progress since man first knew he was a man, developed in him certain fixed prejudices. When "might meant right," he feared the power of the overlord, who first, by his own physical strength, and later by that of his organization, imposed his will on others. When feudalism was scotched, the power of money was feared; when corporations became common, and because of necessity became of great size, their power was feared. And the place where shares in corporations are dealt in, came under the same dislike. The fact that corporations have conferred upon mankind some of the greatest benefits* mankind has ever received is forgotten when this feeling takes possession of the mind.

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*See quotation at head of chapter on "Partnerships and Corporations," page 143.

Stock Trader Not A Middleman

Dealers on the Stock Exchange and on other Exchanges must be viewed from different standpoints. The trader on a commodity exchange may be looked upon as a form of middleman, in that he stands (even though beneficially) between the producer and the consumer; but the trader on the Stock Exchange can in no sense be so looked upon—he is not a middleman in any sense. *He never comes between producer and consumer.* This is not a plea against the middleman or the commodity exchange; but it is a plea that whatever feeling exists against them should not be attached to the Stock Exchange.*

Investigations

In an interview reported in the Wall Street Journal, October 12, 1912, Robert P. Doremus, the great odd lot dealer said: "Our politicians are legislating for a Wall Street of twenty years ago. The stock market is not controlled by large speculators creating deceptive prices by manipulative orders. That kind of business is passing away, and it may be also said that another kind, that of purely gambling accounts, carried on the lightest of margins has practically gone, and is not likely to return."

The feeling against exchanges has shown itself in laws of various kinds, passed sometimes without examination of the facts, and sometimes after such examination. The chief of these were: (1) the statute in England in 1734 against short selling,

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*Each investigation of grain, cotton, wool and produce exchanges has resulted in a verdict that such exchanges benefit both producer and consumer.

which was proved undesirable and unenforceable; (2) the statute in New York, in 1857, also against short selling, and also undesirable and unenforceable; (3) the United States law against gold speculation, which was repealed in fourteen days after its passage; (4) the investigation in 1878 of the London Stock Exchange resulting in the upholding of their system; (5) the agitation in 1888, through the sudden growth of Populism in this country, resulting in the Hatch commission, an investigation by both houses of Congress, *and the complete upholding of grain speculation;* (6) the laws against speculation adopted in Germany in 1896, and repealed gradually because of their proved unsound foundation; (7) the investigation in 1908 of the New York Stock Exchange, by the commission appointed by Governor Hughes, of New York; (8) the investigation of the Exchange in 1912 and 1913 by Congress, and (9) of 1913 by the Legislature of New York. With the three latter we are most concerned, and they will be looked into briefly.

Unlisted Department

The Hatch Industrial Commission, appointed to investigate trading in grain and other commodities, incidentally looked into stock trading; there was about this time trading going on outside the Stock Exchange, on the Curb; criticisms of this outside trading were many and severe, both as to the kind of speculations dealt in, and the kind of dealers. The Exchange was looked to to remedy this, insofar as possible; it therefore afforded a place in the Exchange for dealing in a few of the larger and better known outside securities. This was known as the Unlisted Department.

Extension of this Department

In this Department, stocks were dealt in of companies which published a certain amount of information about their doings, but not so full information as was required regarding listed stocks. These companies claimed that to publish full information would be giving their competitors an unfair advantage; this plea seemed well founded, and the Exchange published transactions in Listed Stocks on one sheet and of the Unlisted Stocks on another sheet. The newspapers, however, did not so separate the transactions, but grouped them all together, merely placing a * in front of the Unlisted Stocks. This manner of publishing was later made the cause of bitter assaults upon the Exchange by the newspapers. Gradually the Exchange got fuller and fuller information from most of these companies, until the information published about Unlisted Stocks was practically as great as that published about Listed Stocks.

Frenzied Finance

In 1905 a book called "Frenzied Finance" made its appearance; it was issued by a Boston broker, who had been a member of a Stock Exchange firm, but whose advertising methods caused his withdrawal from his firm. This broker attacked the exchanges; he freely admitted that for pay he had used very objectionable methods in stock speculation, but made the naive excuse that it was the "system" that was dishonest, and not men like himself who used it in the methods described by him; he claimed a change of heart, and attacked, through his book, his former employers

and the "system." Along with this, he published full-page advertisements, in florid language, with catchy headlines, and street slang. They excited much attention; and it has been claimed that this attention was used to launch various enterprises in unlisted stocks. His statements regarding the "system" produced a storm of newspaper criticism of the Exchange, and may truthfully be said to have brought about the appointment by Governor Hughes of New York of the commission known as the Hughes Commission, to examine into exchanges in New York.

Hughes Commission

This commission sat ten months, heard many witnesses, went into a large volume of written statements, letters, complaints, etc., and made a unanimous report. It found, among other things:

> 1. That markets spring into existence wherever buying and selling are conducted on a large scale, and when properly organized, these markets become exchanges;
> 2. That speculation consists in forecasting changes in value; with buying and selling, in order to take advantage of such changes;
> 3. That where speculation is free, fluctuations in price (ordinarily violent) become gradual, and harmless;
> 4. That the rules of exchanges forbid gambling;
> 5. That measures should be taken to lessen speculation by persons not qualified to engage in it;
> 6. That the Exchange can accomplish more by its rules than could be accomplished by legislation.

The Commission, therefore, was opposed to incorporation of the Exchange, and suggested ten matters for the Exchange to do, directed to putting into effect Point 5, above. Of these ten suggestions, nine were adopted by the Exchange, as recited at length in the Appendix.

Investigation by Congress

However, the interest excited by the campaign against the Exchange was too widespread to be allayed by a report from a commission of citizens of New York; accordingly, in February, 1912, the House of Representatives at Washington provided for an investigation into the alleged connection between the "Money Trust" and the Exchange, to get at the root of the so-called "system." The oral testimony taken in this investigation occupied but a short time; however, the report was not handed in until a year after the investigation had been provided for; a bill, seeking to place the Exchange under the Post Office Department accompanied the report.

Incorporation

The report found no connection between the Exchange and the Money Trust, and gives high credit to the Stock Exchange in the following words:

> "It is doubtful whether the Federal Government is empowered to regulate Exchanges."
>
> "Manifestly, a security privileged to be bought and sold on such an Exchange obtains a wider market and a more definite current value than one which is not."
>
> "The New York Stock Exchange is the primary market in the United States, and as such is a vital part of the financial system."
>
> "It is the market place of the entire country and of foreign countries for securities, and the only market place in the United States where money is loaned and borrowed."
>
> "The business transacted by its members comes to them from almost every corner of the civilized world. Its hallmark as to the genuineness of a certificate of interest passes current everywhere and is rightfully supervised with jealous care and at considerable expense to the corporations concerned."

"Listing upon the Stock Exchange gives a security a wider market and a more definite current value, making it easier to sell and easier to borrow on."

"Quotations on its floor determine the current value of all the greatest corporations of the country. Such quotations are adopted by the Courts and by the Comptroller of the Currency as measures of value, and upon them banks base the amount to be lent on a given security."

"It undertakes to prescribe the form and conditions of every corporate security in which it authorizes dealings, and its determination is final through its control over the listing of such securities. It reserves the right to exact the minutest details of the business and affairs of the issuing corporation, to impose its will in the matter of the procedure by which the corporation shall declare and pay interest and dividends, and in the matter of the transfer and registry, and as regards endless other details. *All this is very properly done.*"

"As regards the rates of commission enforced by the Exchange, *your Committee believes the present rate to be reasonable*, except as to stocks say of $25 or less in value and *that the Exchange should be protected in this respect* by the law against a kind of competition between members that would lower the service and threaten the responsibility of members. A very low or competitive commission rate would also promote speculation and *destroy the value of membership.*"

The Congress adjourned four days after the report was filed, and the matter went over until the session beginning in the following December, when it came before a Senate Committee, which, after several hearings, allowed the matter to drop.

Manipulation

The House report made several references to the subject of manipulation, and recommended that the Exchange

"prohibit so far as possible the execution of simultaneous or substantially simultaneous orders from the same person or persons to buy and sell the same security for the purpose of creating an appearance of activity therein, and any orders the purpose of which is to inflate or depress the price of a security."

The practice had already been prohibited by the Exchange, in the following words:

> "Fictitious trades are forbidden; any member violating this rule shall be liable to suspension for a period not exceeding twelve months,"

and members had been disciplined for violating that rule; however, it was seen the rule could very wisely be extended. A curious coincidence now comes to light, in that, in all of the newspaper attacks only one grain of constructive work is shown; the thousands of dollars spent in invective, and in discussion, contained only one useful germ, and this the Exchange now adopted. In an advertisement of January 28, 1910, the Boston broker suggested the adoption of a rule stating that "A matched trade is one where the stock, bonds or securities involved do not in fact change ownership by or because of the transaction." The rule adopted by the Exchange reads:

No Change of Ownership

> "That no Stock Exchange member, or member of a Stock Exchange firm shall give, or with knowledge execute, orders for the purchase or sale of securities which would involve no change of ownership."

New York Legislature

Just before the House of Representatives committee reported, the New York State Legislature began its session of 1913. Governor Sulzer made a special report to the Legislature, suggesting that speculation be made the subject of special study. In due course, bills were introduced, some of which failed of passage, and other were adopted. These followed very closely rules already in force on the Exchange and existing State laws. The Legislature refused to incorporate the Exchange.

Committee on Business Conduct

To carry out the recommendations of the House of Representatives and the State Legislature, the Exchange provided a new Committee, a Committee on Business Conduct, whose duties are stated as follows:

> "It shall be the duty of this Committee to consider matters relating to the business conduct of members with respect to customers' accounts.
>
> "It shall also be the duty of this Committee to keep in touch with the course of prices of securities listed on the Exchange, with the view of determining when improper transactions are being resorted to.
>
> "It shall have power to examine into the dealings of any members, with respect to the above subjects, and report its findings to the Governing Committee."

The very wide powers of the Committee are seen; they have been conscientiously exercised, to the good of the public and the Exchange. The possibilities of fictitious transactions on the Floor of the Exchange are very limited; as pointed out elsewhere, trades must be made at fixed points, and openly; brokers, with orders from "all parts of the civilized world" are gathered at those points; the members of Committees are all men actively engaged upon the Floor and wide awake; the penalties imposed by the Exchange are very severe—the stigma of dishonesty, loss of business standing, of business itself. Therefore, while a certain proportion of men in all callings fail of being honest, the likelihood of their doing so in the Exchange is minimized.

Controlling the Market

"It is sometimes said that Wall Street can put the prices on the Stock Exchange up or down, at its pleasure. This is a delusion."* "Wall Street is like the ocean; no man can control

*Horace White, *Journal of Political Economy*, October, 1909.

it. It is full of eddies and currents. The thing to do is to watch them, to exercise a little common sense, and on the wave of speculation to come in on the top."* "The most powerful operators cannot overcome the natural tendencies of values; the most they can do is sometimes to hasten or retard the certain effects of a foreseen event."†

Resume

It has been seen that speculation is a natural accompaniment of every business operation; that it automatically results in the establishment of markets and exchanges; *that only traders in food products* can be considered as coming between producer and consumer, and that stock traders are not properly subject to that criticism; that investigations of stock markets have resulted in showing that the Exchange is in the forefront in every movement looking to the protection of the public. It would therefore seem that prejudice against the Exchange is unfounded, and that proper explanation of its position would remove that prejudice.

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*Courtois, *Traites des Operations de Bourse et de Change.*

†C. A. Conant, 1904.

A TRADING POST

Stocks must be bought openly, and only at the Post to which they are assigned. The figures on the dials show the last price at which the stock was sold, see also pages 68 and 84.

BUSINESS AND SPECULATION

> "A real distinction exists between speculation which is carried on by persons of means and experience, and based on an intelligent forecast, and that which is carried on by persons without these qualifications. The former is closely connected with regular business."—Hughes Committee, 1909.

> "All business is uncertain—all business is speculation; the term 'speculation,' however, is commonly restricted to business of exceptional uncertainty. The uninitiated believe that chance is so large a part of speculation that it is subject to no rules, is governed by no laws; this is a serious error."—Unknown writer.

Kinds of Property

All material wealth is in the form of property, and property is of but two kinds, real and personal. Houses, lots, farms, and buildings are real property; all other property is personal property—furniture, clothing, jewelry, cash, stocks and bonds are personal property.

Securities are Property

Stocks and bonds being property, are subject to all laws governing property, such as purchase and sale, attachment for debt, inheritance, taxation, transfer, and the like.

Business

Business is the purchase and sale of property, carried on for profit. The buying and selling of real property is known as the real estate business; the buying and selling of personal property is called by the name of whatever the particular kind of property the dealer specializes in, such as the dry goods business, the hardware business, the jewelry busi-

ness, banking, brokerage, and the like. No form of dealing in personal property is less "legitimate" than any other form, if the business is conducted according to law.

Speculation* Speculation is the risking of money in any legitimate way, in the hope of profit. Speculation is also called by the name of the articles speculated in, such as a business speculation, real estate speculation, cotton, grain, wool, sugar, stock, coffee, produce or other speculation.

The Business Man To be engaged in business is considered an honor—is looked upon as an indication of solid qualities; the business men of a community are considered its foremost citizens. Is being engaged in speculation any less honorable? By being engaged in speculation, we mean not only being a stock broker, but also being a buyer and seller of stocks—whether that be the sole, or merely incidental, business. Are the risks of speculation different from those of business?

Who Should Engage in Business or Speculation No man should take up a business of which he knows nothing, and risk his time and capital in it. Customarily, he has had an apprenticeship or clerkship in it, has studied its principles, probabilities or possibilities. The same thing is true of speculation, or should be true—that no one should risk his time and

*"People will endeavor to forecast the future, and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known, as a means of avoiding or mitigating catastrophes, equalizing prices and providing for periods of want."—Justice Holmes, 1905, in U. S. Supreme Court.

capital on some unknown venture, but should have made it the subject of as much investigation as he would apply before engaging in a business. For instance, no one would engage in the shoe business without knowing something about shoes; and it is equally true that no one ought engage in speculating in the stock of a shoe company without looking into the condition of and possibilities of the shoe business, both as respects the particular company and general business conditions.

Reckless and Unbusiness-like

Among the offenses for which men are excluded from the Exchange is one that is known as "reckless and unbusinesslike conduct." The principles of business are made, by the rules of the Exchange, to apply to speculation in stocks and bonds. The taking of unusual or foolish risks is forbidden, under penalty of practical expulsion. Speculators outside Exchange membership should take no unusual or foolish risks. The taking of ordinary business risk is the common, everyday concomitant of life—whether you consciously risk your money or not, it is being risked—but the taking of foolish risk, the engaging in half-baked, unthought-out, sure-to-fail enterprises, or in good enterprises on insufficient capital and reserve, is something to be avoided by member and non-member alike.

Comparative Risk

It will, however, be said that speculation presents greater risks than business. Reflection shows this cannot be true. For example, to engage in business a person must give up all other means of livelihood—no man can successfully conduct a

business, while employed by another; his business will require all his time and attention. To engage in business, before he can take in a dollar, he must put out many dollars, and bind himself in many ways. He must lease a store, binding himself for rent, perhaps, for a long period; must put in fixtures, stock, and other facilities; must engage help; must do some advertising—thus incurring many expenses, some of them for more than just the current time. Most of these must be met out of his cash capital—it is very rare that the new merchant can get credit for the things enumerated above. But to engage in a speculation, the person needs only his margin, plus reserve; his expenses are at a minimum, and are confined to commission; if he is buying a dividend-paying stock, his dividends will take care of interest on the borrowed money.

A Government Definition

The Internal Revenue Department of the Government has just put out a ruling (March 11, 1918) covering what losses are deductible on your income tax report. We will quote here only a part of this ruling:

> "Losses, for income tax purposes, are divided into two classes: A. Those incurred in business or trade. B. Those resulting from transactions entered into for profit, but not connected with the taxpayer's regular business or trade."

The Department gives two examples which, concretely put, are: That where a person is "regularly engaged in buying securities, or improved or unimproved real property with the intention of selling the same as early as possible at a profit" a loss incurred therefrom is deductible as a loss from

"business or trade"; but if he is not so regularly engaged, such loss "may only be claimed under certain other provisions." The opinion of the Department is thus seen to be that real estate and stock operations, if conducted regularly and as a man's sole occupation are "business or trade," but if not so conducted are something different, regular performance and sole attention making the difference between "business" and "speculation." But is speculation different from business?

Real Estate and Stocks

The relation of the character of operations in real estate and in stocks is very close. Both, are bought in most cases on part payment and (when not paid for in full at purchase) are pledged against the balance of the purchase money. The buyer is in law and in fact the sole owner of both, and as such owner is at liberty to sell whenever he so desires. He is as to both, responsible for interest, taxes and other charges, and from both gets such revenue as his property earns. In either case, if he displays good or poor judgment, profit or loss follows, as the case may be.

Moral Difference

Our question is, however, not only as to the form in which the business is done, but as to the character of the business itself. Of course it will be admitted that all business is done at a risk. Does the fact, if it be a fact, that speculation in stocks is a greater risk than speculating in dry goods, change the nature of the speculation? Is there any moral difference between buying, say, $1,000 worth of cloth, and buying $1,000 worth of stock of the mill which weaves the cloth?

Causes of Failure in Business

Bradstreets annual compilation of business failures divides the causes of failure in business into two main classes: 1. Those due to the faults of the insolvent; and 2. Those not so due.* The first class produces about 80% of the failures, chargeable to incompetence and inexperience, lack of capital, unwise credits, speculation outside of regular business,† neglect of business, personal extravagance and fraudulent disposition of property. The second class produces about 20% of the failures, chargeable to specific conditions (disaster, etc.), failure of others and competition. Lack of capital causes about 33% or say one-third of the failures; incompetence, 27%; inexperience, 4%; neglect, 2%; or say, another one-third; fraud, 10%; specific conditions, 16%; and minor causes make up the other one-third.

Principles of Business

The matters which the business man must consider are, tersely put: 1. In what business shall I engage (which includes what kind of stock shall I carry)? 2. How much shall I buy? 3. What price shall I pay for it? 4. With cash or on credit? 5. If the latter, how much in cash, and how much on deferred payment? 6. How much reserve capital shall I keep? 7. What will be the expense of con-

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*One of the members of the Hughes Commission which investigated the Exchange in 1908, a wholesaler was much impressed with the rule of the Exchange compelling the carrying out of a bargain, unless *both parties* consented to a cancellation. He said: "This is not the custom in business; during the panic of 1907 enough orders were canceled on my books to have caused my failure in business, had I not been fortunate enough to make provision to meet the situation." Recent cancellations of war orders gives a peculiar point to the difference upon this subject between a business order and a speculative order.

†"Business enterprises now tend more and more to become speculative in character."—Charles Gide, Principles of Economics. Paris 1889.

ducting the business? 8. What profit shall I hope for? 9. Shall I hold for the profit, for a larger profit, or sell before the profit is attained? 10. Whom shall I trust? 11. How far shall I trust them? These are the speculative risks of business.

Principles of Speculation

The risks of stock speculation are similar to those just named as the speculative risks of business: 1. What stock shall I buy?* 2. How much shall I buy? 3. What price shall I pay for it? 4. With cash, or on credit? 5. If the latter, how much in cash, and how much on deferred payments? 6. How much reserve capital shall I keep? 7. What will be the expense of speculating? 8. What profit shall I hope for? 9. Shall I hold for the profit, for a larger profit, or sell before the profit is attained? 10. Whom shall I trust? 11. How far?

The Principles Applied

Few realize that the business man must be a good buyer as well as a good salesman—that the profits depend on good *buying*. This is equally true as to stock speculation. A purchase of salable goods or stocks is the first requisite toward success. Either goods out of fashion, out of season, of flashy nature; or unlisted or little known stocks, are equally a poor purchase, and lead to bargain sales. Overpurchasing has the same result. Paying too much for goods or for stock, predicates sales at a loss; buying them solely for cash, under the above conditions, does not improve the matter. Goods or stocks well bought, however,

"*Speculation, as we have said, ought never to bear on stock imperfectly known."—Henry Hamon, 1865.

are just as good a purchase, on part cash and part credit, as if bought all cash—indeed, if well bought, are better bought on part credit, provided expenses are not too heavy (in business—such expenses as rent, help, interest; in stock speculation such expenses as commissions, interest, taxes); and provided a sufficient reserve is kept in hand to meet contingencies. What profit to hope for, what profit to take, whether to sell at a loss, are questions met by every merchant, by every speculator. The time to sell out is as important in business as in speculation. The merchant must determine as to his customers who to trust and how far; the speculator, who to trust and how far—as to advice, information, the broker employed.

Taking a Risk

The late Secretary of the Chamber of Commerce said, in a recent work: "The essence of speculation is risk, and risk is an element in all commercial and credit transactions; if the taking of risks is immoral, than all trade is wicked"*—(Pratt). In both stock speculation and general merchandizing, risk-taking is the most common element. The basis on which risk is taken, makes for success or for failure, but does not change the character of the transaction. Much business is done on credit—not one merchant in ten thousand buys his goods for cash, with his own money. When he does buy for cash, he most likely pays with borrowed money† (which is sound business); the stock speculator,

*"Speculation is the purchase or sale of anything in the hope of profit from an anticipated change in its price. It differs from ordinary trade only in degree."—Professor Seligman, Columbia University, Principles of Economics, 1905.

†Merchants often make quite a profit by borrowing from a bank for 30 days at 6% (meaning ½% interest) and claiming the cash discount on goods, often 2% or more.

who buys and sells stocks on borrowed money, if his purchase is wise, is equally engaged in sound business. The soundness of the purchase, plus the state of the market, plus his means for payment, plus contingencies, are elements of the speculator's risk; the soundness of *his* purchase, plus good business conditions, fair skies, plus his means for payment, are elements of the merchant's risk.

Hope for Gain

Both business and speculation are founded on the same basis—hope for gain, from something bought to sell again, or sold to buy again. Whether flour is bought by one merchant from another to fill engagements, or to make a profit, or to sell to customers; or bought by the same merchant from another merchant in the Board of Trade, does not change the character of the transaction—both are business, both are speculation.

Foresight and Prudence

As the eminent economist, McCulloch, said: "Speculation is only another name for foresight."* And business without foresight is sure to become a failure. In his A. B. C. of Speculation, S. S. Nelson said: "The man who is prudent and careful in carrying on a store, a factory or a real estate business, seems to think that different methods should be employed in dealing in stocks; nothing is further from the truth."

Merchants in Stocks

The new Income Tax Law has classified stock brokers, as "merchants in stocks." This definition is a departure in the right direction,

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*"Cool-headed men are the most fortunate speculators because honest speculation is nothing else than discretion applied to private or public securities."—Manual of Stock Exchange.

indicating a broadening of the heretofore narrow view that the business of stock brokers is different from that of other merchants; stock speculators are actually "merchants in stocks," and therefore business men.

Causes of Failure in Speculation

Lack of capital—buying beyond one's ability to care for and properly protect, causes many losses in speculation, as it does in business. Incompetence and Inexperience—a lack of knowledge* of the security purchased and of the principles of speculation—causes many others. Unwise credits—buying from brokers of unknown standing causes others. Neglect of business—inattention to the market, failure to give one's broker proper directions, causes some losses. Disasters cause many—the outbreak of a war, the sinking of a *Lusitania*, the assassination of a ruler, the destruction of a factory, a serious railroad wreck, causes still others. Each of the causes of business failure operates to cause speculative failures.

Overtrading in Real Estate

As an instance of business overtrading, the following case can be cited: The house in which the writer lives is one of twenty-one, built at the one time by one builder; he had previously bought a plot of ground, sold half of it for enough to have the balance clear, and then built the houses referred to. Instead, however, of building a few houses, to see what their sale would be,

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*"The success or failure of a man engaged in manufacturing, transportation, or in agriculture depends more upon his skill as a prophet than upon his industry as a producer."—Professor Hadley (of Yale), "Economics," 1896.

he built up the entire property. The houses were at that time not readily salable, and the result was his failure in business. Had he applied the rules of business he would have tested out the neighborhood, the real estate market, and general conditions; would not have overbought building materials, would have kept a reserve of cash, and would have made a profit, or at the worst, only a limited loss. No one can be blamed in this case but the builder; yet such a case, in buying stocks, would have been blamed on speculation.

Data not Complete

The proportion of those failing to those engaged in business is given as about 1½%;* but the figures collected include only failures by which other business houses were caused a loss. Failures of small dealers, by which other houses made no loss; of persons engaged in the professions, such as physicians, lawyers, civil, mechanical, electrical and other engineers, actors, brokers, real estate dealers and farmers are not included; and the enormous number of cases in which the original capital is exhausted, and an enterprise dies of starvation, after perhaps using up the funds of relatives and friends, are not taken into account. Also the very large number of those who start in a profession or business, exhaust their means, and then give it up are excluded. It would seem, if these were taken into account, the proportion of failures by reason of incompetence, inexperience, and lack of capital would be enormously increased.

*For a comparison of failures of members of the Exchange and national banks, see page 51.

Losses by Speculation

If in comparison with business failures, the losses of persons by stock speculation were confined to those not engaged in the professions, or those who lose some part or all of their own capital, but cause no loss to "other business houses," it must be apparent that the losses through speculation would compare very favorably with those made through business. And if, in the statistics of business failures, these excluded classes were included, it would seem likely that the tradition that "the larger number of those who enter business are doomed to ultimate failure," is nearer true than is comforting.

Speculations of Business. Farming

Business is best described as "a continuous speculation." The articles bought, their price, the expense of business, the attendant conditions are constantly changing. By business man, we do not mean the merchant only, but anyone who operates an industry, or produces or deals in materials. The farmer is a business man—and the greatest of all speculators; he must determine what crop to plant, and how much; what stock to propagate, and how much—risking money and labor, at the mercy of time and the elements, of commercial and industrial changes—to produce a crop, the amount and outcome from which he cannot even estimate. The miller, who determines what kind of cloth to weave, what kind of grain to grind, is also a speculator, taking all the risks that fall to the stock speculator.

Banking and Speculation

Banking is looked upon as one of the most conservative of businesses; requiring a high degree of judgment as to conditions, and as to the amount of money to risk. Bankers lend their own and other people's money on real estate, perhaps as great a speculative risk as any; they lend to farmers, subject to the uncertainties just enumerated; they lend to merchants, subject to the risks referred to, under Failures; and they lend on securities. And it is a well known fact that they lose less money by loans on securities than on any other loans.* But more than this—banks must be ready to repay depositors; lending all their money to growers (to be repaid when the crop is harvested), or to merchants (to be repaid when the goods are sold), would mean that repayment to depositors on demand would be impossible; so they keep on hand the vast amounts of stock and bonds pointed out elsewhere herein.

Good Judgment in Stocks

The banker, therefore, to protect his depositors, must have good judgment as to what securities to buy, what securities to loan upon—in other words, be a good business-speculator; for he, too, is subject to the risks which speculators, whether in merchandise or in stocks, must encounter, as set forth above.†

The Nimble Sixpence

Some seek to distinguish between business and speculation because of the quickness of changes in the latter; but the maxim, "A nimble

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*A prominent banker said recently in the hearing of the writer that his bank had loaned hundreds of millions of dollars on stocks and had never lost a dollar on such loans. †Pages 24 and 25.

sixpence is better than a slow shilling" is the business maxim of today. "Quick sales, small profits," is another form of the same motto, adopted by many business houses of the day.

The Value of Credit

Demosthenes said: "Wealth is of two kinds—money and credit, the latter being the greater." And Daniel Webster said: "Credit has done more, a thousand times more, to enrich nations than all the mines of the world."

Credit in Business

As has been pointed out not one merchant in ten thousand buys for cash, or with his own money. But speculation on part payments, on borrowed money, is condemned by many who do not realize that it is not the question of the debt assumed, but of the means in hand, or available, which makes the difference between a sound and an unsound transaction. A foolish purchase is always unsound, whether on credit or for cash. Credit is one of the greatest of assets—the testimony of the late J. P. Morgan that he had loaned as high as a million dollars to a man, solely on his credit, is the experience (to a smaller extent) of all business men.

"When a man requests a line of credit with us," said the credit man of a big wholesale house, "he always seems surprised to learn how comparatively little interest I display in learning how much he has and how extremely anxious I am to discover how much he knows.

"My experience has taught me that mere money can be easily lost. But ability and character—those are the stable, permanent assets which can create more money."--H. J. Barrett, N. Y. *World*.

Lack of Credit

Bradstreet's figures are that above 95% of the failures were by those "of very moderate or no credit rating," with less than 1% of those "of very good credit, or higher." These figures show conclusively that numbers of men who engage in business without sufficient mental or material means, and on poor advice and bad judgment, come to grief, just as men who buy securities under similar circumstances find a similar end; but that those with reserves are more likely to prove successful.

Placing the Blame Where It Belongs

The blame, therefore, should not be placed upon the *kind* of business engaged in, but upon the kind of *man* and the *way* in which he engages in it. Because men fail in business and because men fail in stock speculation should not give either a bad name or operate to keep others from engaging in either. Rather, the reasons for failures should be made clear, the basic principles of business and speculation made a matter of fundamental education, and intending engagers thereby given the opportunity to see what perils confront, and what benefits ensue, in both business and stock speculation.

Investment in Business

Placing one's means in business is not an investment—one can hardly be said to "invest" in a business; the nature of business is that of a constant change and is opposed to the thought of investment. Investment contemplates the placing of a sum of money in a venture, for a fixed period, at a fixed interest, with the return of the principal

at the end of the term; but in business as in speculation the period is unknown, the interest varying, the risk is unknown, the outcome uncertain, the return of the principal problematical.

A Comparison

As pointed out elsewhere, the owner of small means cannot engage in business alone, nor procure a partnership in a desirable firm; and, as the statistics show, without adequate capital and experience he cannot succeed; yet with the same amount of means, he *can* procure a participating interest in some safe business enterprise, conducted by high business talent, and with great business honesty, and which, by reason of large capital resources, is not likely to fail.

Not Every Man Should Speculate

Some persons think that only those should speculate who can afford to lose; nothing could be further from the true spirit of speculation, than to hold such a theory, because true speculation, while contemplating loss—considers all the risks, provides against them, and so surrounds one's judgment with reserves of capital as to insure against loss. It is true, however, that many persons should not speculate—for instance, those whose minds are easily influenced, those without strict and sterling business principles, persons of feeble judgment, those who allow anxieties to prey upon them—these should keep away from any operations which involve risk, not only operations in the stock market, but in general business as well. The amount of money one has at risk is not a factor; but the wise or unwise way in which

one risks it is a factor; and the person who engages in a venture, feeling at the outset that he can afford to lose, is apt to exercise so little caution as to almost insure a loss.

Two Kinds of Speculation

The conclusion seems unavoidable that speculation is divisible into two classes—and only two, viz.: 1st, that which takes into consideration earning power during the time a profit is being arrived at; and 2d, that which takes into consideration only the hoped-for profit. The first includes transactions in *proved* securities, such as dividend-paying stocks, interest-bearing bonds, the purchase of paid-up life insurance, and deposits in banks; the second includes transactions in *unproved* securities and new ventures, in which risk is great and hoped-for profit thought to be commensurate with risk—and, strangely enough, also includes *all forms of general business,* business being conducted solely in the hope of a profit and without regard to the earning power of the means at risk other than the profit. Business, therefore, may be said to be *pure speculation*—the buying of anything solely for profit—as with unproved securities; while the buying of proved securities may be said to be either investment-speculation or speculative-investment, according to the degree of risk taken and of the expected dividend or interest return.

The Same Basis

It must be clear that the speculations of business, and the business of speculation are founded upon the same basis, governed by the same rules and to be judged by the same standards.

We the Subscribers, Brokers for the Purchase and Sale of Public Stock, do hereby solemnly promise and pledge ourselves to each other that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock, at a less rate than one quarter per Cent Commission on the Specie value of and that we will give a preference to each other in our Negotiations. In Testimony whereof we have set our hands this 17th day of May at New York 1792.

Leon[d] Bleecker
Hugh Smith
Armstrong & Barnewall
Sam[l] March
Bern[d] Hart
Alex[r] Zuntz
Andrew D Barclay
Eph[m] Hart
Isaac M Gomez
John Bush
Peter Anspach
Charles M[c]Evers Jun

Sutton & Hardy
Benjam[n] Seixas
John Henry
John A Hardenbrook
Samuel Beebe
Benj[n] Winthrop
Jno Pearson
Guilian M[c]Evers
Augustine H Lawrence
G. N. Bleecker

David Reedy 13th November 1794

Robinson & Hartshorne 13 Nov[r] 1792

THE ORIGINAL AGREEMENT WHICH MARKED THE CORNER STONE OF THE NEW YORK STOCK EXCHANGE IN 1792.

IS SPECULATION DESIRABLE?

"The wish of improving his condition, of acquiring wealth, is deeply implanted in man. It is a passion which, duly regulated by sound principles, secures social improvement and national prosperity."—Manual of the Exchange, 1865.

A Speculative Era

Each era in history seems to have some distinguishing point, some one outstanding feature which gives it a character and provides for it a name. The present era is beyond doubt the greatest speculative era in the history of the world. Speculation is not as wild today as it has been at times, for instance, in that of the Holland tulip craze or the Mississippi bubble; but it is wider spread and has a deeper hold than at any previous time. The wealth of the United States has doubled in the past fifteen years; and such an enormous increase must, in itself, produce speculation. Values are constantly changing, new enterprises are beginning, and men becoming more used to gigantic ventures.

Ignorance Regarding Speculation

The average person having broached to him for the first time the question "Is Speculation desirable?" may feel disqualified to answer it. He may have moral qualms as to a favorable answer, yet feel insufficient knowledge of the subject to give an unfavorable answer. His answer will depend largely upon his education, the newspaper he reads, his business, the kind of friends he has, and his own experience or that of his friends with speculation.

Business and Speculation

Certain forms of commercial business are so surrounded by or connected with speculation in wool, cotton, coffee, sugar, iron, grain, produce, stocks, real estate and other things, as to make it sure the answer will be favorable. Certain personal surroundings or experiences may produce an unfavorable answer.* The relation of speculation to other business is considered fully elsewhere herein.

Is Life Insurance Desirable

It is not so many years since the question was fiercely debated, "Is life insurance desirable?" Within the past thirty years, the writer heard the noted divine, T. DeWitt Talmadge preach his famous sermon, defending life insurance against others who asserted, with much cogency, that life insurance is contrary to Scripture and is opposed to the Divine command, "Take no thought for the morrow," and to the Pauline injunction "Cast all your care on Him, for He careth for you." It is one of the curiosities of history that in every European country except England life insurance was at its beginning and for long years prohibited; in France, for instance, it was declared unlawful, "because it is an offence against public decency to set a price upon the life of a freeman, which is above all valuation."†

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*Professor Emery, in his treatise on "Speculation in the United States," says: "Few things have called forth greater extremes of praise and blame than modern organized speculation. On one side it is strongly denounced as being morally wrong in itself, or as being in addition to this a disastrous influence in business. This view is perhaps that of a large majority of respectable persons outside of business life, and of the greater part of the newspaper press. On the other side the system is as strongly upheld."

†See also paragraph on "Insurance and Gambling," under heading, "Investment, Speculation and Gambling."

Life Insurance and Lotteries

Aside from the religious standpoint, life insurance was thought to be, and frowned down upon as, a form of lottery. While it was recognized that "all men must die" the fact that some men, upon dying, could leave a sum of money to their estate at a small cost, while others dying would leave the same sum at a much higher cost, was considered as essentially gambling, not differing from a lottery; and the fact that part of the gain in life insurance is from those who lapse, or fail to continue until the end, was felt to be a further gambling feature and therefore an additionally immoral matter.

Marine Insurance

Most persons know what relation Lloyd's has to the shipping industry; yet very few know that this great business grew out of the agreement by the shippers who drank coffee in David Lloyd's little coffee-room that each would share in the loss of a ship or cargo belonging to any of the others, on the occurrence of such a loss; that this method of underwriting or insuring was viciously attacked,* and Lloyd's coffee-house was denominated a "public gambling house which ought to be suppressed." To-day a shipper sending out cargo or vessel uninsured would be deemed mentally incompetent.

Is the Charging of Interest Immoral?

The same sort of attack was made upon charging of interest on loans of money. It was forbidden by the ancient Hebraic law, as laid down in Exodus 22, Leviticus 25, and Ezekiel 18; it was taken up into

*Accidents and storms at sea, are legally known as "acts of God." It was considered blasphemous to endeavor to provide against "an act of God."

the law of many lands; and "it took centuries of thought and experimental legislation and practice to separate legitimate from unjust usury."* "The old corn laws were in many ways analogous to the laws against lending money at interest".

Is Business Immoral?

The same sort of attack was made upon conducting of business as a livelihood. All trading for gain was considered immoral, and was condemned by Church and State. The removal of goods or produce from one community to another was made a criminal offense. Men were put into "pillory and gaol" for trading merely "for gain."† It took centuries to get rid of these restrictions; not until the beginning of the nineteenth century were they entirely abandoned. Prejudice still persists, however, against many forms of business.

The Effect of Speculation

Any consideration of the desirability of speculation must take into account its effect upon the State and upon the individual; also whether it is economically sound; moral or immoral; legal or illegal. Such consideration can be but briefly attempted in a work of this character, and much of value and interest must be either tersely put, or entirely omitted. However, such phases of the matter as seem most vital will be taken up in turn.

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*J. S. Nicholson, "History of English Corn Laws."

†A large speculative element is involved in trade of every kind. In mediaeval times, when the socialistic theory of value was generally accepted, all trade was regarded with a auspicious eye; and the attempt to buy an article when it was cheap, with a view to selling it when it became dear, was visited with the severest penalties."—President Hadley of Yale, "Economics," 1896.

The Effect on the State

The beneficial effect of speculation upon the State cannot be overestimated; to it are directly due such improvements as city waterworks, electric and other lighting works, irrigation works, railroads, trolley roads, steamship companies, bridges, and the innumerable improvements which would never have been made by public money, and having been made with private money have benefitted the public beyond compare. None of the great enterprises of modern times could have been undertaken, except by the co-operation of thousands of persons who, believing in the success of and value to be derived from these enterprises, placed their money in them—an act of speculation only.*

The Effect on the Individual

The effect of speculation upon the individual is not perhaps so clearly perceptible. It is undoubtedly the case that many pioneers in the purchase of stocks of the transcontinental railroads, and in the original elevated railroad companies, lost money by these ventures; it is undoubtedly the fact, in ventures in many kinds of new enterprises, that success is not always assured; and that in no sort of business can success always be assured. It must be apparent that some men will succeed in a business while other men, with the same capital, the same business knowledge, and the same apparent conditions, will fail; that the "personal equation" is a large factor. Are these results to be credited to, or charged against the business, or the man? Because a man fails in a business or in a speculation, because men overdo

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*See quotation on page 91 from "History of Materialism."

or underdo in any direction, is the effort of engaging in business or speculation in those directions to be decried? It is with all of this in mind that we must approach the question "Is Speculation Desirable?"

Money "Lost" in Speculation

No one will assert, because these pioneers lost some or all of their money so invested, that the enterprices thus begun should not have been begun; or that the investors should not have made the investment. The faith shown in the future of our country, the application of the money to the employment of mechanics, engineers, and others, the problems met—unsuccessfully at first, but later victoriously—all prove that the enterprises were proper ones for investment, even though possibly begun on an improperly conceived and perhaps unbusinesslike basis. Loss of money in an unsuccessful venture, as is elsewhere pointed out,* is often the means of saving larger sums of money by preventing the rash undertaking of "half-baked" ideas. In addition, every business man knows that he must spend a fair proportion of his means in "experimenting" before he can be assured of success; and money lost in promoting proper enterprises is merely money spent on experimentation—and therefore is really not lost.

Ease of Speculation

It is asserted by some, because it is easier to engage in speculation than it is in business, that this ease shows its undesirable nature; these matters are considered under the chapter headings, "Business and Speculation," "Investment; Speculation and Gambling," and "Margin Trading."

*See substitute "Value of the Speculation," page 62.

The moral effect of speculation is said to be unfortunate; that speculators are led to "expect something for nothing," and that they therefore cease productive effort to become hangers-on at speculative centers. As to the bulk of speculators, nothing can be farther from the truth; as to the few, it may be the case—in fact, in every walk and pursuit of life, in every form of business are to be found the reckless, the indifferent, the foolish, the gullible. How to prevent them from their own dispositions is a study worthy of the best attention. Education seems the only solution—education through reading, reflection, experience; with the proper amount of the first two ingredients but little of the latter should be necessary.

Losses by "Speculations"

Speculation on the Exchange is charged with much for which it is not responsible. For instance, the daily papers often carry advertisements, setting forth the desirability of buying stocks, the facts regarding which are unknown, the prices of which perhaps are to be advanced upon a certain date; and the public is asked to buy into these schemes. Fake mining enterprises are started, and house-to-house solicitors sell stocks to kitchenmaids, with promises of future profits at "guaranteed" prices. Or a mail-order broker skips with the cash of his victims; an insurance solicitor, or a feed salesman, or a man engaged in any of a dozen different lines gets his name in the papers, and is announced as a "well known broker;" and the meed of discredit each of these brings is ofttimes laid at the door of "speculation" upon the Exchange.

Speculation in Trade

As Professor Hadley, of Yale, has said: "A large speculative element is involved in trade of every kind." Business men are, therefore, speculators. And, as is also shown elsewhere, the bulk of the security behind assets of the banks, life insurance companies, and other similar enterprises, is stocks and bonds. Their business could not be conducted without such assets, compact in form, safely handled, easily realized upon; and their purchase is, in the ultimate, a form of investment-speculation. Of course, speculation of this character, by such concerns, *is* desirable—most desirable. If the bank, as a bank, is therefore a speculator for its depositors, and such speculation is desirable, is it any less desirable for the depositor to use his means himself, instead of having his bank do so? If desirability hinges on morality, the answer will be affirmative; if on its successfulness, the answer is two-fold—theoretical and practical.

Theoretical and Practical

Theoretically, the answer to this question would be, that if he invests in the same things his bank does, on the same terms, and the same risks, his individual and personal speculation should be as desirable as if made by the bank for him and for his fellow-depositors collectively. Practically, the answer would be that the *experience** of the bank gives its ventures an

*One reason why individual investments cannot be expected to turn out as well as the investments of a bank, would be that an individual investment would likely be in one security, while the bank's investments would be in many securities—in which case a loss on one might be offset by a gain on another. The adage about "Not carrying all one's eggs in one baskct," at once comes to mind; however, an investment, properly entered upon, would seem as likely to succeed, whether entered upon by an individual, or hy a bank.

advantage over those of the individual, even though he has purchased the same things, upon the same terms, as did the bank.

Morality of Speculation

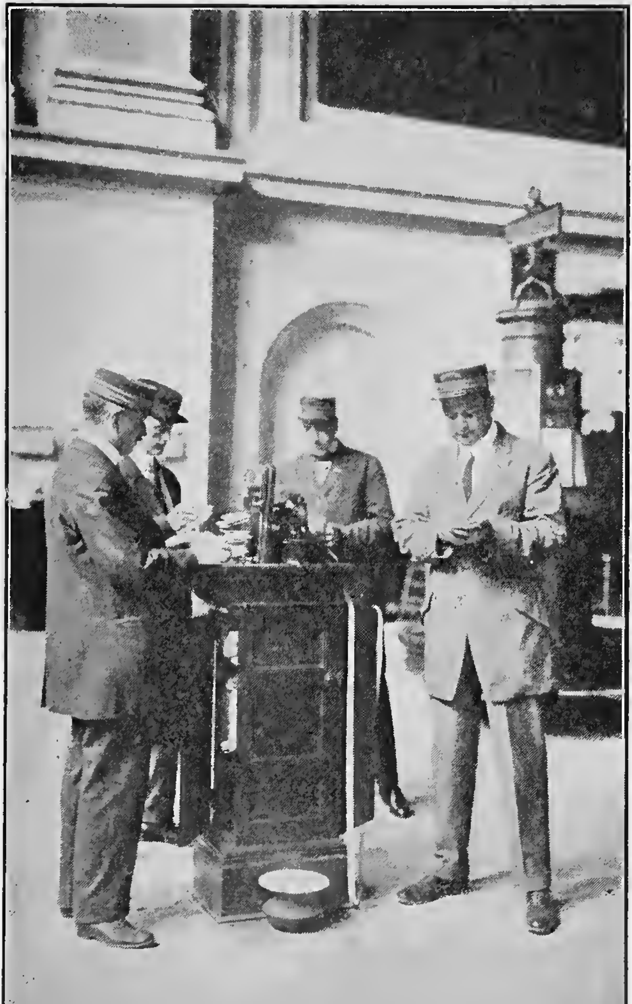
The morality of speculating rests in part on the capabilities of the venturer—his intelligence, steadiness, capital and reserve. No one can recognize quite as well as does the broker just what the dangers are from foolish speculation, nor just what the benefits are from correct speculation. Most men are speculators, consciously or unconsciously. The conscious, intelligent speculator takes the whole risk in the hope of reaping the entire reward; the unconscious speculator takes a lessened risk and secures but part of the reward. Speculation on a sound basis in a legitimate enterprise is moral—other speculation is immoral.

The Answer of the Future

The answer of the future to the question, "Is Speculation Desirable?" cannot fail to be similar to the answers given to those already answered questions, "Is Life Insurance Desirable?" "Is Marine Insurance Desirable?", "Is an Interest Charge Immoral?", "Is Business Immoral?" Speculation is a form of insurance, a form of business, an undertaking both for present interest return, and with hope of future profit. Attempts to suppress it by law have been repealed as unwise, and intelligent opinion is steadily veering toward a better understanding and higher appreciation of its beneficial effect, upon individuals and society as a whole. An opinion given by the United States Supreme Court can well be quoted:

> "Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices and providing for periods of want."

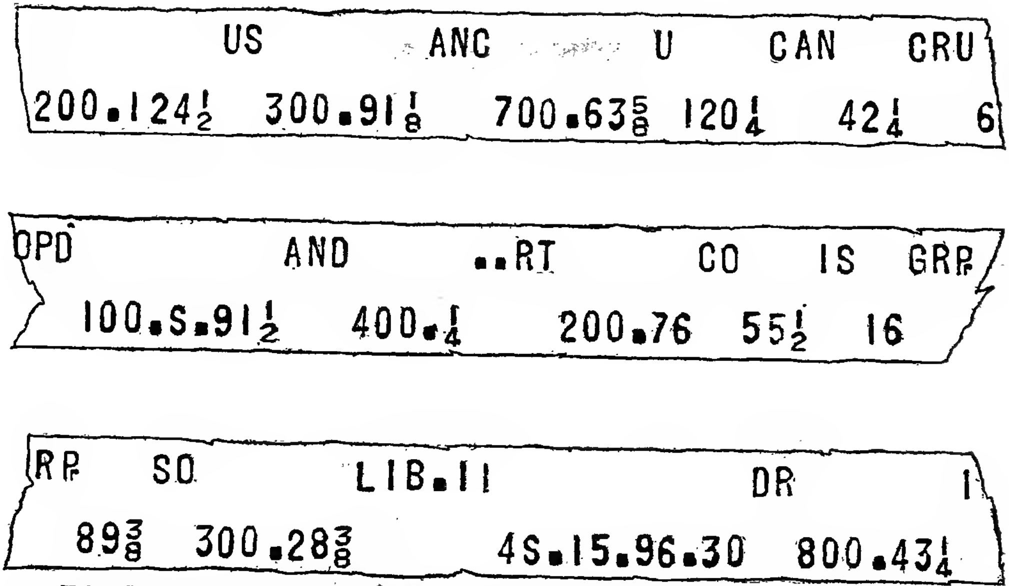
That which "mitigates catastrophes" and "provides for periods of want" would seem highly desirable. The crux of the quotation is, of course, the word "competent." Ideal speculation predicates competency, which in turn implies education or experience, sound judgment, proper capital—in fact, proper business qualifications. Speculation by incompetents is deprecable. There can be no doubt, with proper education, that the public will as surely veer to a favorable answer on this most important matter, as it has on the other questions raised in this chapter.



GROUP OF TELEGRAPHERS REPORTING SALES

On one side of the pedestal in the foreground is a telegraph instrument. The man at it is sending out the prices brought to him by the three others; on the opposite side of the pedestal is a ticker on which the prices appear almost instantly. See page 48 for a piece of tape and 220 for the ticker keyboard and the ticker instrument.

PART OF THE TAPE



United States Steel Common, 300 shares at 91⅛; Anaconda Copper, 700 shares at 63⅝; Union Pacific, 100 at 120¼; American Can Common, 100 at 42¼; Crucible Steel Common, 6 ....; ....opened 100 shares at 91½, and 400 at 91¼; Royal Dutch Common, 200 at 76; Chesapeake & Ohio, 100 at 55½; American Ice Common, 100 at 16; B. F. Goodrich Preferred, ...; .... Preferred, 100 at 89⅜; Sinclair Oil Common, 300 at 28⅜; Liberty 2d 4s, 15 at $966; Distillers Securities, 800 at 43¼.

EVILS OF SPECULATION

"Complaint is made of the evils of speculation. The evils that speculation prevents are greater than those it causes."—Leroy-Boileau.

The Problem

In speculation, as in business, evils are to be found; they have been the basis of inquiry by publicists, economists and legislative committees. While made in good faith, their conclusions are far from being in agreement, and it has been found almost impossible to fix upon just what are the evils and just how to eradicate them. For instance, the Hughes Commission, after ten months of inquiry, said:

> "The problem, wherever speculation is strongly rooted, is to eliminate that which is wasteful and morally destructive, while retaining and allowing free play to that which is beneficial.*"

Unfair Charges

The conclusion of economists is that speculation is of itself not necessarily an evil; all agree that its unsound pursuit may become an evil. Speculation in listed stocks is charged with many evils with which it is not connected and for which it is not responsible. It has seemed easier to charge up wrong-doing than to ascertain the facts; but they can be said to be of two kinds—those occurring within the Exchange and those outside. They include evils for which the broker is responsible

*The Hughes Commission made ten suggestions to the Exchange, for its action on which see Appendix.

and those for which others are responsible—such as the encouragement of speculation, speculation on small margin, growth of corporate wealth and power, dishonesty among brokers, dishonest practices on the Exchange, the use of vast sums to the detriment of other business, overtrading, pyramiding, insufficient examination of stocks dealt in and of the standing of brokers employed; short selling, etc. Speculation in stocks has also had to bear the weight of prejudices aroused against speculation in grains and other food products.*

Growth of Corporate Wealth

Stock speculation did not cause corporations; the corporations came first. There were no stocks until there were corporations—stocks are the certificates of ownership in corporations; it has been claimed, they are an almost unalloyed blessing to mankind, second perhaps to no other invention. The growth in the number of corporations is not due to speculation, but to the benefits derived from that form of doing business; the growth in size of corporations is also not due to speculation, but to the fact that progress has been so great and enterprises necessarily so large as to be impossible otherwise. Without a vast number of stockholders in a transcontinental railroad, we would either have the railroad owned by a few very rich men, or not have it all—more likely the latter.

Dishonest Brokers

Dishonest brokers have caused great distress—dishonesty of any kind always does. There is no form of business in which dishonesty is

*See chapter on "Prejudice against Exchanges."

not found; but a sharp line should be withdrawn between possible dishonesty in the Exchange, and dishonesty outside. The Exchange has rules against dishonesty, and enforces them; the dishonest broker does not last long in the Exchange; the manner in which business is done, openly, at fixed points, under the view of Committees, prevents all but the rarest cases of dishonesty. But against dishonesty by non-member brokers there are only two deterrents—the broker's conscience and the general law. Proof against a non-member broker is not easy; but the Exchange can, and does through its Committees, get at all the facts regarding transactions by members—and acts upon them.

Failures of Members

There are 1,100 members of the Exchange, and the average of business failures among them during the past ten years is less than ½ of 1% per annum—of these, half settled with their creditors and were reinstated, reducing the absolute failures to ¼ of 1%. The failures of National Banks during this same period was 1¼% per annum. This comparison shows a high grade of business capacity and honesty.

Dishonesty Outside the Exchange

Common forms of dishonesty outside the Exchange are: The quoting of stocks at prices above those actually occurring; the adding of commissions in the form of an increased price in stock; the actual buying of a stock that is ordered, and afterward persuading the customer to sell it and place the proceeds in some other

unknown and unlisted stock; inviting discretionary accounts, giving tips, bucket-shopping, and other pursuits.

Money Used in Speculation

The use of vast sums in speculation is discussed at length under the appropriate heading elsewhere. It should be here said, however, that inasmuch as more than one-half the wealth of the country is in property represented by stocks and bonds, it does not seem unreasonable that a proportion of the money of the country, say 3% or one-thirty-third, should be used in stock speculation, in the purchase of those stocks and bonds.*

Evils Controllable by the Speculator

The evils controllable by the speculator include overtrading, insufficient capital or insufficient reserve, insufficient knowledge of business principles, lack of knowledge of the stock purchased, and lack of knowledge of the broker. Of such speculation the Hughes Commission said:

> "It involves a practical certainty of loss to those who engage in it."

Overtrading

The rock on which most speculators in stocks come to grief is overtrading. In the words of the Hughes Commission: "Two practices are prolific of losses: buying active securities on small margins, and buying unsound securities, paying for them in full." A perfectly sound speculation on too small a reserve is as risky as a rotten speculation, bought outright. The matter of reserve is the crux of a sound speculation; a marginal purchase on a proper basis of a

*See Chapter on "Money Used in Speculation."

good stock or bond is as sound, as good business, as moral, as buying the same stocks for entire cash; but any purchase on part payment without reserve is inviting disaster.

Soliciting Business

The employment of solicitors is forbidden by the Exchange, not on the ground that the business is one which should not be encouraged; the fact is that solicitors are prone to look first to the amount of commission they can earn, and seldom as to the best good of the person who buys. This is true in every form of business. The young couple starting their home are persuaded to buy a bigger and more expensive house than they should occupy or can pay charges on, to get more extensive and expensive furniture and musical instruments than they can find the monthly payments for; young men and women are led to dress and incur expenses away beyond their normal paying abilities; salesmen do not hesitate to overload them with anything they can get an order for. Over-buying the Exchange does not want—its rules are aimed to prevent it.

Pyramiding

Pyramiding is a form of trading which is very insidious—the use of possible profits at present market price as a basis for further purchases. Pyramiding may be either up or down. An illustration may be interesting: If a speculator has bought a stock on a margin of $1,000, and the present price shows a profit of $1,000, his credit is $2,000; if he thinks the price is likely to advance further, he directs the purchase of another block on this credit. Of course, if the price continues to rise he is making

a profit on twice the amount of his original purchase; but if it *begins to decline*, his margin is exhausted that much sooner. A drop in price finds the speculator with much stock and little margin. Good brokerage houses do not permit pyramiding on paper profits.

Buying Unknown Stocks

The buying of unknown securities, or anything unknown, is a risky business; buying on tips, given by who knows who, and for what reason, is equally risky. No person of good judgment would risk his capital in a partnership in a business of which he knows nothing, run by persons of unknown or too well known reputation, merely because of a rumor that the concern will soon be making large profits; and no person of any judgment would give his money to unknown persons to put into such unknown businesses; yet this is what is being done, every day in the year; and they blame their losses on speculation, and not on their own foolhardiness.

Booms

Another evil of speculation is the tendency to buy when others buy, and sell when others sell. Of course, no rule can be fixed as to when a speculation should be entered into, or departed from; however, stock booms are not unlike real estate booms—the volume of the market, the fact that others all around are buying, makes one feel as if in a current, unable to resist its pull. While it is true the accustomed trader does better in such markets, the casual speculator who buys in a rising market usually sells in a falling market. The principle attributed to Baron Rothschild: "Buy when others sell, sell when

others buy," has been followed by many, but not by most. The tendency to blindly follow the lead of others is probably the reason for calling speculators "lambs," as sheep are known to blindly follow one another into anything, without using their heads.

Short Selling

The nature of short selling is little understood. It is looked upon by many as one of the greatest evils of speculation and by others as one of its greatest benefits.*

Ease of Speculation

The benefits of speculation, we are told, outweigh the evils it occasions. We are told that markets should be free—that speculation should be easy to engage in. It occurs, however, that that very ease is sometimes turned to evil. It is easier to speculate in stocks or real estate than it is to engage in a business—the merchant will rarely extend credit to a beginner with little business experience and small capital, while the real estate or stock broker will unhesitatingly buy for a person of good character a lot or a block of stock on a small payment and provide the remaining money to complete the bargain. The inestimable value of this ease of stock purchase is considered elsewhere, but here we shall look at the reverse side of the argument.

Encouraging Speculation

It is often impossible for a broker to know when an order is given whether his customer intends paying in full at once, in full within a short time, or whether he intends the transaction

*For discussion in full, see chapter on "Short Selling."

to be one on margin; there is no rule, in law, in business, in morals why credit should not be extended to a customer, provided the customer is a proper one, and the credit not for an unusual amount. However, the encouragement by a wholesale merchant to a retailer or by a broker in land or in stocks, to overbuy, is reprehensible; the leading of a customer into too heavy an obligation, solely because a profit may be made by the wholesaler, or a commission by the broker should be punishable. The difficulty is in formulating a rule to meet the situation.

Adequate Margin

It is difficult to frame a rule covering the granting of credit.* The Exchange has a rule, requiring "adequate margin." This term has not been accurately defined, but appears to be primarily intended for the protection of the broker; however, on complaint, the Exchange would undoubtedly call before it a broker who would encourage unsafe speculation. Its rules also prohibit speculation by certain classes of persons. Many firms will not take accounts from women, or of persons of small means. Others who encourage small accounts do so only upon very large margin.

Bucketshops

The greatest evil of speculation has undoubtedly been the bucketshop. Although not found to so great an extent as formerly, and banned by law in many localities, they still exist, and at times flourish.

*"The amount of margin which a broker requires from a speculative buyer of stocks depends, in each case, on the credit of the buyer; and the amount of credit which one person may extend to another is a dangerous subject on which to legislate. Upon the other hand, a rule made by the Exchange could safely deal with the prevalent rate of margins required from customers."—Hughes Commission, 1909.

The bucketshop is a brokerage concern, in which the proprietor takes the other side of the customer's order; selling, if the customer wants to buy and buying, if the customer wants to sell. Sometimes they are run in chains, run by managers; sometimes they ostensibly place orders upon an exchange —indeed, there have been and possibly are now, exchanges whose business is as illegal as that of the bucketshop.* The bucketshop asks only a very small margin, say 2%. It usually has two sets of wires, slow and fast, the first public, the last, private. Prices from the slow wire are posted for the information of the customer; prices from the fast wire are received for the information of the proprietor. The result is easily foretold—the customer loses his money, curses speculation and the Exchange; the proprietor pockets the margin. Where a market, however, steadily rises, so that the customers are not losing, the proprietor either persuades them to go into some other stock, or skips with the money. Since the law against this form of robbery has become more widely extended, bucketshop keepers establish "exchanges" to which they ostensibly report their business, and ostensibly "clear" it; or they join other exchanges, and carry on their business by means of branch houses. It is practically impossible for a buyer to get his stock, or to make a profit on it—the stock is never bought, the proprietor takes care of the profit. The Stock Exchange began its war on bucketshops in 1878, and has fought them consistently ever since;† they bring disrepute upon legitimate speculation.

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*The Philadelphia Consolidated and the Pittsburgh Consolidated Exchanges were both closed by the authorities, as being bucketshop outlets.

†The war on bucketshops is conducted by the Committee on Quotations.

Education as to Speculation

The watchword of the bucketshop proprietor was "a sucker is born every minute." If this be true, but one course seems open—education as fast as possible on the fundamentals of speculation. Certain peoples are inherent traders; trading is inculcated in them, through long centuries of trading by their forbears. Their education in trading is inherited from generations of traders, and imbibed from their own individual earliest surroundings and training. Rules for trading, however, can be taught as a matter of scholastic education, the benefits of speculation pointed out, the dangers shown, the pitfalls exposed; thus tending to produce a competency such as the world has not yet seen, while lessening the number of those who, ignorant of the basis of speculation, take it up to their loss.

Panics

Panics have occurred at various times in this country, usually at intervals of approximately fifteen years.* They have been looked upon by the uninformed as an evil of *stock* speculation, when they usually have been the result of *business* and of *land* speculation. In all new and naturally rich countries, such as ours, business expansion and land booms occur and recur. With each recurrence, large volumes of money are loaned for business expansion or for land and building operations. Business loans are seldom

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*"Panic.—An exaggerated alarm which takes possession of a trading community on the occurrence of a financial crisis, such as may be caused by the failure of an important hank, or the exposure of a commercial swindle inducing a general feeling of distrust, and impelling too hasty and violent measures to secure immunity from possible loss, thus often precipitating a general financial disaster which was at first only feared."—*Century Dictionary*.

The great panics in this country occurred in 1837, 1857, 1873, 1893, 1907.

for periods of less than three months and are often for a year, and land and building loans are usually for periods of three or five years; the capital thus tied up in such enterprises is therefore impossible of quick return. On the contrary loans on stocks and bonds are for short periods, often only from day to day, and are usually almost immediately collectable. On occasions of sudden fear and demand for money, lenders of money curtail their loans, and that which was theretofore looked upon as good collateral is no longer considered desirable. Cash and cash only is required. It would be practically impossible to sell the lands or business places or to get loans on them from another lender; therefore, when money is wanted, the money loaned on stock and bonds is called for, and they are necessarily often sold to produce that money. Of course, such forced sales produce a decline in prices, and attention is focussed on the Stock Exchange. It is blamed with *causing* the panic, when, in fact, because securities through the Exchange are readily convertible into cash, it is the real means of *preventing* the conditions which would ensue if stocks and bonds could not readily be turned into cash by sale on the Exchange.

Conclusions It has been seen that of the evils connected with speculation, many are not chargeable to the Exchange; that those which are so chargeable are made the subject of its wide supervisory and corrective powers; that by far the greater number of evils are due to the lack of discretion of the customer—his failure to investigate his broker, the stocks he puts his money in, to provide sufficient reserve capital,

his over-extension of purchases. For these laxities, neither the Exchange nor speculation should be brought to the bar; the misuse of proper functions does not call for the abolition of those functions, but for education as to their proper use. Just as general hygiene has had to be taught, just as any form of education has had to be systematically drilled into an apparently unresponsive public, so the principles of speculation as practiced upon the Exchange must be brought to the attention of the public, and it be taught to discriminate between those evils which are due to the fault of the speculator, which he only can control; those which are due to dishonest practices of unattached brokers and promotors; and those which the Exchange permits, if there be such.

SPECULATION AND BETTING

Speculation and Betting

A very common form of gambling is betting; the prices made upon the Exchange are often referred to as being "mere bets" upon market values, and this form of speculation is considered as not differing from gambling, from betting, and as essentially only the risk of money on a contingency. That this is an erroneous conclusion, unwarranted from any standpoint, would, on reflection, appear irrefutable.

Aviation as an Illustration

Let us consider a new field for betting, and for speculation—aviation. This is now becoming a leading business, but was recently only a novelty. If, for instance, a prominent aviator states that with $100,000 he can construct a machine which will put trans-Atlantic air travel on a commercial basis, men will at once be of opposite opinions on the matter, some holding that it can be done; others that it cannot—some optimists, some pessimists—let us say, one thousand each.

Two Forms of Optimism

Optimism is expressible chiefly in two ways: By giving material aid; and by words. Material aid will be shown by subscribing to the cost of the enterprise; "words" will be shown by doing

nothing, or by *betting* it can be done. Let us suppose the stock of the new enterprise is $100 a share. Let us suppose the thousand optimists will not subscribe, but will bet $100 each on its success. They thereby risk $100,000, or enough to begin the enterprise—but as they *bet*, and do not *subscribe*, the attempt cannot be made.

Applied Optimism

If, on the contrary, each optimist places his $100 in the aviator's hands, the attempt *will* be made; and, even though it prove a failure, they are in no worse stead than they would have been had they bet instead. The event proving a failure, in either case they would be out $100 each, because they backed their opinion.

Value of the Speculation

Of course, risking the $100,000 in making an attempt is speculation, and nothing else. The vast difference between the speculation and the bet is at once seen: In the case of the bet, a useful venture is *not* undertaken, even though the necessary amount is risked by persons of friendly disposition. In the other case, even though the money has been spent, and the friendly ones have parted with it, it is not lost. Lessons have been taught by which others (if not the present experimenters) will profit; forgotten or overlooked details, which often make the difference between failure and success, will be examined into, and the next attempt may thereby become a success. Or, even if the conclusion is reached that the idea is impracticable, its abandonment will save others from risking their means in similarly useless or valueless attempts.

Useful Effort Encouraged

In the case of the bet, the money at risk has changed hands; one idler has paid his money to another idler. But in the speculation, while the money has also changed hands, mechanics have had employment, engineering problems have been met (even if not successfully), human imagination has been stimulated, and mankind has been led forward to new endeavor.

Moral Differences

The moral effect upon the bettor and upon the speculator must not be overlooked. Society is interested in whether its members are partakers in development or are merely onlookers. If the latter is the habit, development lags, enterprise is handicapped, the struggle for industrial and material advance is severe, and each forward step is made at odds which ought not exist. The moral effect and attitude of the useless bettor, as compared with that of the stimulating speculator, is not one which discriminating judges will prefer.

Consideration of Sports

Yacht racing, motor racing, horse racing, all supply fairly similar illustrations. Money is invested in all, betting is done upon all. Yet the money put into the building of a yacht or a motor, or into the purchase of a high breed of animals for the development of strength and speed, serves a useful purpose. And it is vastly different from and must not be confounded with the risking of an equal or any amount of money upon a bet as to whether the yacht, the motor, or the horse can or cannot travel a given distance within a given time, or beat its competitors to a goal. Large

sums are invested in the grounds and in the teams required in such sports as baseball and football, which investment is true business speculation, and is in no way confusable with the money which the managers and friends of such teams may risk in bets upon the outcome of the season or of a game.

Bettors vs. Buyers

The dissimilarity exists not only with regard to the *acts* but also to the business ethics of those engaged in the different pursuits. In betting upon races and kindred sports, bookmakers stand ready to bet on either side as against the other, just as the bucketshop keeper does as to those who bet upon stocks. But in legitimate speculating, the business of the broker brings buyer and seller together, whether the speculation be in real estate, in stocks, in foodstuffs, in manufactured articles, in mercantile paper, or what not. A sale and delivery are agreed upon, and always occur; whereas in a bet, a stake merely changes hands, and property never does.

Bucketing is Betting

The law is quite clear in its distinction between a speculative transaction and a bet upon stocks. The anti-bucketshop law* makes it felonious to contract or assist in contracting for the purchase or sale of securities, wherein the intention is to settle on the basis of prices in the market—in other words, a bet upon those prices. What the bucketer means is: "If the price is reached, you win; if the price is not reached, I win." This would be bad enough, if it were honestly administered; but as will be shown, the bucketer has no intention that the bettor shall ever win.

*Section 390 of Penal Law of New York.

Bucketing vs. Buying

Betting upon the Exchange is forbidden by its rules;* brokers who do not buy stocks when ordered by their customers are severely punished; in addition, the customers have legal redress against those brokers. The broker is the agent of the customer, and their interests are and should be identical; the broker buys *for* his customer, and hopes to see him get a profit. The interest of the bucketer is opposed to that of *his* customer; he hopes to see him lose; he does *not buy* what the customer orders, but puts the money in his pocket, and waits until the market goes against the customer (and where necessary helps it to go that way by putting in orders to sell).

Rights of Buyer

A bet upon the price of a stock confers no privileges upon the bettor; he never sees the certificate of stock and gets no rights from it. But the buyer owns the share and has title in it, whether paid for in full, or only by payment down; the rules of the Exchange provide that

> "The buyer shall be entitled to receive all interest, dividends, rights and privileges, except voting power, which may pertain to the securities contracted for."

Therefore, he is credited with the dividends earned by his stock; can sell it whenever he so decides; can pay for it in full, and take it away, at his own pleasure; and owns the stock, in exactly the same way and to exactly the same extent as the buyer of real estate does, who has made his first payment, and taken title.

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*Betting in the office of a member is also forbidden; a member must keep his office above criticism, and permit no act which will reflect upon honest speculation or upon the Exchange.

Fluctuations

As is well understood, stock is the evidence of ownership of an interest in a corporation. A corporation is a sort of limited co-partnership, which issues certificates, showing how much each "partner" owns in the concern. As the business of the concern improves or otherwise, the value of these shares is changed; and speculation in the stock is the best means of arriving at these changing values. The going value of a partnership is difficult of computation; but that of a corporation is shown, moment by moment, on the Exchange.

Buying or Betting

If a stockholder feels that his company is coming into good times, and should earn larger dividends, and that therefore his interest should be worth a greater value, *he* can evidence *his* faith in the same two ways that the friends of the aviator can, in the illustration already given—buy more stock, or bet upon its value—in either way, gaining a profit, if his judgment is good; or making a loss, if his judgment prove bad.

Effect of Either

These are distinct operations: The show of faith, in buying the stock, has the effect of lessening its floating supply, and supply always affects the price. If there be much purchasing, the price advances, hope in the business is stimulated, idle capital is directed toward this and similar enterprises, and new ventures in that line may be begun. But, in making the bet, only the opposite party is affected, and he certainly not *favorably* affected, or he would not take the opposite side and view.

Betting upon a matter will never determine its going value, but speculation determines that value, "as no other method known to man has ever done."* Some have said that the bet, showing as it does, lack of faith in the enterprise, will act as a deterrent to foolish buying; but the knowledge of the bet must always be within a very narrow circle, while the knowledge of the purchase is at once spread abroad, through the ticker and the press; so that their influence is not comparable.

The Law

The law with regard to wagering is clear—a bet is not a legal contract, while a speculative order is; such orders must be obeyed, and damages can be recovered when they are not obeyed; but a bet is not binding, and, if its terms are not fulfilled, damages cannot be recovered.

Conclusion

It is therefore seen that speculation and betting are not only *not* similar, but are entirely dissimilar, both as to their nature and their effect upon the individual, and upon society as a whole; and that no reason exists for confusing one with the other.

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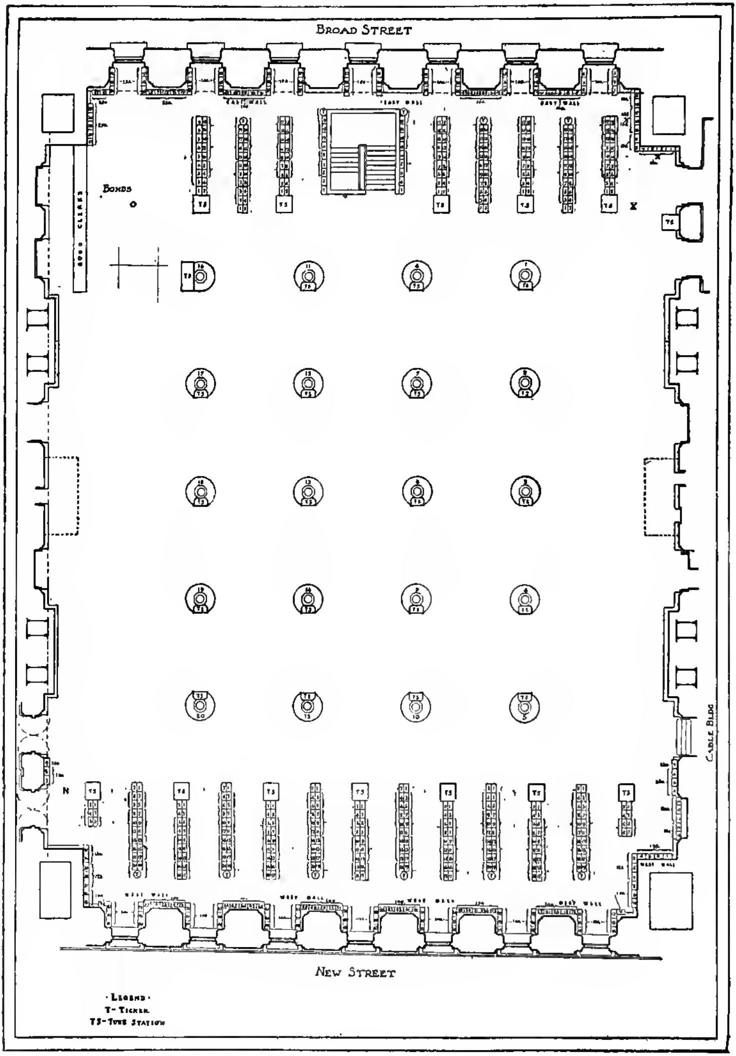
*Horace White, Chairman Hughes Commission.



FLOOR OF THE EXCHANGE. See also page 84

The floor is about 120 ft. x 150 ft. The 700 telephones are ranged in the rows shown in the opposite sides of the room. The circles in the middle of the room are the trading posts, a photograph of one of these posts being shown on page 18.

INVESTMENT, SPECULATION AND GAMBLING

"The rules forbid gambling.

"Of course, we do not say that these rules actually prevent gambling in the Exchange. It is possible, if not probable, that gambling may be and in fact is carried on there, *but it must be in violation of, and not pursuant to, the rules.*"—United States Supreme Court.

Business on the Exchange

Transactions upon the New York Stock Exchange follow each other with such rapidity, and with such momentary changes in price; the difference between the high and low price of the day is often so marked; the total value in money of those changes is so great; and transactions on a wrong basis are so liable to result in loss—that many persons who should be better advised assert that those transactions are merely gambling operations, and that the Exchange is simply a gambling place.*

Differences in Definitions

Every law, before undertaking to penalize an act, makes a definition of what the act is, and what is constituted by that definition. However, we find that no established definition exists for the terms "Investment," "Speculation," and "Gambling." Economists, financial writers, and lexicographers differ widely as to

*Francis Bowen: "The common prejudice against speculation arises first from confounding it with gambling."—Principles of Economy.

their meaning and relation; and unless a fairly well-defined line is drawn, consideration of the terms will lead to some confusion, and to little of value. "Investment" is thought to be more legitimate than, and vastly different from "Speculation," which is often said to be nothing but "Gambling."

Ordinary Forms

The most ordinary forms of Investment and Speculation are the purchase of real estate and of securities; men speculate through commercial business, but rarely can be said to "invest" in business—business is a continual risk, the interest return cannot be computed ahead, and the hope of profit is uppermost in all business; "investment" is a term which contemplates little or no risk, fixed interest return, and little or no thought of profit. The most ordinary forms of Gambling are betting on sporting events, the playing of games of chance, buying into lotteries, and the like.

Elements Involved

Study of the elements involved in these three different matters is necessary to arrive at their nature, and relation; and, although those who have made such matters a study are not so well agreed as to definitions, they are practically agreed as to these elements. They are customarily set down as being:

1st, Intent; 2d, Judgment or Discretion exercised; 3d, Time Involved in the Transaction; 4th, Experience; 5th, Means applied, including the amount paid down; 6th, Risk or Chance taken; 7th, Moral Nature of the Transaction.

1. Intent

First, therefore, we must consider the Intent. The intent in each of the operations is seen to be practically identical. The intent, in an Investment* is to regain the principal (with or without a profit, which, however, will be only incidental) on the termination of the venture, pending which termination, a fixed and sure income will be received. The Intent, in Speculation, is to regain the principal, plus a profit, such interest as may be meanwhile earned being a part of the profit. The Intent, in Gambling, is to regain the principal, plus the opponent's principal. Thus, in the three operations, the Intent is to get back the original money, plus an accretion; the amount of the accretion and the time involved, and the risk taken are not here to be considered; we are dealing with Intent, solely; and it is seen that the Intent does not show the transactions to be unlike. A gambling transaction, therefore, does not depend on the Intent.

Investments are Sometimes really Speculations

The purchase of a house, or of a standard security, with intent to live upon the income, is a customary operation; but in spite of the *intent* may be either an Investment or a Speculation. The purchase of a horse or of a motor car, with the intent to use them for hiring, as a means of revenue, is a proper business investment; but this also may turn out to be merely a speculation. The purchases may each turn out to be foolish, ill-advised, and as resulting in loss. The horse may die, the motor

*The Wall Street man studies an investment from three standpoints: 1. Its yield in interest or dividend. 2. Its security. 3. Its duration.

become involved in an accident, the stock may decline in earning power, or the house burn down or the neighborhood be overtaken with pestilence or other disaster; and what was thought, and hoped, to be an Investment, with sure returns, has become a poor Speculation. None of these transactions can, however, be said to have been a Gamble.

2. Judgment or Discretion

Secondly, we must consider the Judgment or Discretion displayed. This quality is equally necessary to success in Investment, Speculation or Gambling. Good judgment makes the difference in most of life's events between success and failure. Poor judgment may result in a loss in Investment, in Speculation, in Gambling; yet *good* judgment, in selecting a horse, or a pugilist, or a card to bet upon, does not make the operation commendable; so that Judgment is seen, also, to be not the determining factor.

Mortgage Speculation

Good judgment in selecting a property on which to loan money upon mortgage, is a necessary factor; yet in loaning money upon mortgage, which is considered the safest form of investment known, Speculation plays a prominent part. The lender lends only two-thirds of the appraised value of the property—because, lest he be forced to take in the property at foreclosure (by reason of default by the borrower) the lender wants a large margin for safety; and this margin is a speculative margin. The moment he lends, he begins taking a risk, and this risk is speculation. Speculation and Investment are here seen to be hand in hand. Where a bond of future maturity, is purchasable

at less than par, the interest from which makes it a good Investment, the difference between price and par also makes it a Speculation.

Speculative Investments

In all investments, therefore, the investor takes into account the fact that, with a Railroad, for instance, (whose bond has been bought), bad years may come; a series of accidents may ensue; adverse legislation may be had; the interest rate may be lowered. Or, with the Mortgage, as has been pointed out, by various unforeseen contingencies, the earnings from the mortgage may cease, and, instead, there be set up a series of expenses. These make, of what was reasonably hoped would be a pure Investment, really a poor Speculation. It is almost impossible to make a business commitment which is not subject to speculative surroundings.

3. Time

Theoretically, Investments are more permanent than Speculations, and Gambling less so. But the Time involved in a transaction has no bearing whatever upon its character. It is not material, as to the character of a transaction, whether it requires a minute, a day, a week, a month, a year, to carry it through. Although the buyer may intend, when buying, to hold a house, a horse, a bond, for a long time, nevertheless, a sudden rise in value, with the temptation of immediate profit, may cause its sale at that profit—or a sudden necessity for money may cause its sale at a loss. And what was seriously entered into as a long-time Investment, has become a short-time Speculation. Again, while intending to speculate, that is, sell on a rise, a fall in market value (underlying conditions remaining meanwhile

good), has caused the postponement of a hoped-for sale, often the shares are paid for in full, to save interest charges; and what was looked upon in the beginning as a Speculation, is now really an Investment. Gambling is usually a matter of but short duration in time; games are often played, and races are often run, in a very few minutes. However, the taking of a longer period of time does not change gambling into something else; nor does the taking of but a short time to make a trade, turn the trade into a gamble. A bet, made at the beginning of a baseball season as to which team will win, requires a lapse of months before decision—but is none the less a gamble. And often a real estate purchaser sells out his purchase to a new buyer before he has arranged to take title in it himself, but this is not gambling. The time taken in a transaction does not determine its character.

4. Experience

Experience is said to be "the best of teachers." It is often invaluable; no man will employ for a position of responsibility an inexperienced man. Experience points out what to avoid, and what to take advantage of; when to go forward, and when to retreat. But experience does not change an improper act into a proper one; no matter how many times a gambler has gambled, or a bettor has made bets, the acts are still improper. Experience, therefore, does not determine the character of the action.

5. Money Employed

It is impossible to determine whether a transaction is a Speculation, an Investment, or a Gamble, from the amount of money involved. Houses are bought on mortgage, and stocks are bought on

margin,* sometimes relatively very small, yet may be intended as permanent purchases, and therefore pure Investments. And, on the contrary, they may have been paid for in full at the outset, and yet be, and have been intended to be, mere Speculation. Since the rule was put into force by the Exchange, forbidding speculative transactions for certain classes of persons, it has been found that some of them are buying today for all cash, and selling tomorrow for all cash; buying the next day or so, again for all cash, and selling a day or so later for all cash. No one can contend that, because these persons are not doing business on borrowed money that they are any the less speculating; Speculation does not depend on whether the money used is borrowed, or is the speculator's own means; nor does Gambling depend upon the cash in hand. Many wagers are made "on honor," with no cash deposited; while in others, the entire amount of cash involved is required to be placed in the hands of the stakeholder before the wager is entered. In games of chance, at times, the cash involved is in sight, on the table; at other times, no cash is seen, and settlement is made after the game is ended—perhaps at a future day. The amount of cash in sight, or paid in, in an Investment, a Speculation, or a Gamble, does not determine the nature of the transaction.

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*"Purchasing securities on margin is as legitimate a transaction as a purchase of any other property in which part payment is deferred. We therefore see no reason whatsoever for recommending that margin trading be prohibited."—Hughes Commission on Stock Exchange, 1909.

6. Risk or Chance

But, says the reasoner, the Risk or the Chance taken, or the proportion of Risk or Chance taken, is the deciding factor. Can this be? The least reflection would seem to show the unsoundness of this conclusion. Risk and Chance are present in every operation of life; and the wise provide against them so far as possible. The lessening of risk and the elimination of chance, are the duty of all men; men insure their lives, their houses, their businesses, the honesty of their employees, in the endeavor to reduce the risk. They hold safe reserves of capital, as insurance against chance in business and in private life. All business is done at a risk; one's least personal movement is done at a risk—the Accident insurance companies do a very large business because of that risk, depending upon chance. The Good Book says: "But time and chance happeneth to all men." However, the man who provides most surely against risk and chance is the Gambler. He marks the cards; he provides that the roulette wheel is stoppable within certain fixed limits; that the faro-box will eject such a card as he desires; he learns to deal the cards, so as to know which one he will hand *you,* and which one he will keep for himself; he pays the jockey to "pull a race." He has made things absolutely sure against Risk and Chance; but he is a Gambler, none the less, and his acts are Gambling none the less. The amount of Risk and Chance do not make the difference between a moral act and an immoral act. Because there is risk in speculation does not make it gambling; because there is no risk to the accomplished gambler, does not make it any the less gambling.

7. Moral Nature

The moral nature of a transaction is not the determinant of its character. There is perhaps no word as to which so great a variety of definitions can be given as to "Morals." Each person has his own meaning for the word. Gambling is always immoral. Aside from the fact that the gambler is usually inherently dishonest, gambling produces nothing of value, and from that standpoint is immoral; Speculation produces something, and is therefore not immoral. A wise Speculation is as moral as an unwise Investment, and it is quite as immoral to risk all one's means, by payment in full for a foolish Investment, as it would be to risk a less amount on a Speculation in the same foolish risk. As has been pointed out, the morality of a speculation rests in part upon the capability of the venturer—his intelligence, steadiness, capital and reserve.

Wisdom and Unwisdom

Speculations and Investments may be wise or unwise—may be even foolish—depending on the degree of knowledge (or lack of knowledge) of the matter, the conditions surrounding it, and the manner in which it is entered upon; but in Gambling the fullest knowledge of the matter, and of the conditions do not change it from being a gamble.

Investment*

"Invest," as applied to the use of money in business operations, is a very modern word. No such word as "investor" is to be found in Dr. Johnson's first English dictionary. The word is probably derived

*Without exchanges investment as it is now understood would be impossible. "A man who wished to invest (without himself going into business, had practically no choice but to buy property and let it out at rent or to loan his money on mortgage."—F. W. Hirst.

from the two words "in" and "vest." A vest is an article of clothing which surrounds the vital organs. "Invest" (that is, in a vest) implies protection—the surrounding of something vital—the taking of means to protect vital things.

Speculation

"Speculation" comes from the Latin word "Specere," meaning "to see," "to observe." The word "speculum" is derived from the same basic Latin word. Your doctor will explain that a speculum is used for looking into darkened passages. Sight is perhaps our greatest gift—mental vision, perhaps the next greatest. Both sight and mental vision are affected with four main deficiencies, not counting blindness: Near-sightedness, far-sightedness, astigmatisms, strabismus. The first prevents us from seeing things at a distance, yet makes things at hand seem larger than they are; the second prevents us seeing things close at hand, yet makes far-off objects quite clear; the third and fourth, distort things, so that they appear out of their true proportions.

The Ideal Speculator

The ideal speculator should know whether he is mentally near or far sighted, or has other mental defects; and instead of proceeding upon a venture on what appears at first sight, should weigh all the attendant circumstances, contingencies and probabilities—"put on his glasses," so to speak—and thereafter make his commitments. The unwise speculator thinks what he *thinks* he sees "is so," and takes his steps—with the attendant risks.

Gambling

"Gamble" is derived from the English word "game." "Gamboling" is playing. To play a game, however, is not necessarily gambling, while to stake upon a game is. All games combine skill with chance —that is, all games which are .honestly played. Gaming is not be be condemned, because gamblers use it for gambling purposes. It is a well known fact that large stakes are risked upon things other than games—for instance, as to which of several raindrops will first reach the bottom of a window-pane, or as to which of several lumps of sugar a fly will first alight upon. But gambling has most to do with playing of games, and with the sports.

Sports and Games

For years the playing of games has been discountenanced by some of the religious bodies, even such games as dominoes being directly forbidden; latterly, however, the useful relaxation that comes from home-games, with cards and the like, is widely recognized, and often winked at, by most of the former religious objectors. Many games and sports are beneficial in themselves, both as a means of physical improvement, and as producing a community of interest around a social or other center, such as college, club, or school, thus developing such virtues as flow from such community of interest. Many, if not all the sports and games, stimulate attention, concentration, organization and generalship and produce beneficial mental exercise, with restful and diverting effects; and, when not made the means for gambling, are worthy of encouragement. Each, however, gives opportunity for individual judgment as to the outcome, and is

used as a vehicle for betting, and thereby, for gambling. The thinking man, however, does not condemn an act, worthy in itself, just because some one uses the act, in his own way, for an unworthy end.

Wagering on Sports

The operation of an association which provides for the production of the sports is a useful matter, and such enterprises are commonly well supported. Our great baseball teams, the football matches of the various colleges, international yacht racing, and the like, receive much notice, and excite great interest. They are large business enterprises, requiring the outlay of much means. Many of them are stock enterprises; the purchase of their stock is just as much a piece of business, as the purchase of any other piece of property would be; but wagering upon the outcome of a game is gambling.

Prizes

Confusion also arises as to prizes. Some contend they are akin to the stake in gambling. To show this cannot be the case, let us consider as an example, two boys at school whose attainments are approximately equal. A scholarship, say of the value of $500 is the reward of this particular school, and the boys devote themselves strenuously to securing the highest mark, and thereby the prize. This is laudable; only one can win, and the victor receives the scholarship. The question "would the putting up of a cash prize to the value of the scholarship ($500) be essentially or morally different from putting up the scholarship", need not be debated here. However, a prize worth $500 *is* being contended for; and this is a worthy competition. But, if the parents

of the boys make a bet of $500 as to which will win the prize, it is at once seen that, although the value of $500 is at stake in both cases, one operation is worthy and beneficial, and the other is unworthy and harmful—one is gambling, the other is not.

True Definition of Gambling

It has been seen that the same elements* appear in all of the three operations, Investment, Speculation, Gambling. Money is risked, and is made or lost; but the making or the losing of the money, has not made the business operations of Investment and Speculation become the immoral operation of Gambling; nor placed Gambling in the column of Investment or Speculation. The nature of Gambling is very clear—and is comprised in but two elements:

> First: That while value passes from one party to the other, no value is passed back;
>
> Second: That the law of supply and demand has had no part in the transaction.

In the purchase of real estate, securities, food, clothing, value goes from each party to the other, and supply and demand are called into play; and this is true whether the price is high or low, whether the thing is paid for in cash or bought on credit, whether good or poor judgment has been exercised. But the gambler gives back nothing for the money he has taken; and in a bet upon a race, or upon which card turns up first, or on how many miles a boat will make in a day—whether the bet is settled now in full cash, or postponed a year—supply and demand have not been factors. Gambling, therefore, ought to be defined as—

> "An operation which involves risk of capital, in which supply and demand play no part, and in which both parties do not receive value."

*See page 68.

Comparison of Terms

The line between Investment and Speculation is harder to define—in fact, is doubtful of existence. Investment contemplates a long period of tied-up capital, a fixed earning power and minimum risk during that period, with a sure return of principal. Speculation contemplates a relatively short period of tied-up capital, a hoped-for but uncertain earning-power during the period; risk, compensated for by the hoped-for profit, and the sure return of principal. Gambling contemplates a short-time use of capital, no interest return, and the return of none of the principal, or its return plus that of the other party.

Sales Exceeding Transfers

However, an argument is still left to the one who asserts that Exchange operations are, or must be, gambling operations—"the sales reported during the year exceed the actual transfers and even the actual amount of stock in existence."* As to this, it should be sufficient to quote from an opinion of the United States Supreme Court in 1905. Speaking of the disproportion of the amount of grain grown to that sold upon the Chicago Board of Trade, the Court said: "This is no more wonderful than the enormous discrepancy between the currency of the country and the contracts for the payment of money." The use of money exceeds the amount of money, by about twenty to

*House of Representatives Report, 1913. This is, of course, a needless error of statement; what is meant is that many sales have occurred, but have not been recorded on the company's books, just as many sales of real estate occur and are not recorded, because of quick resale to another buyer. The law is very distinct on this point: *Ownership does not depend on recorded transfer.* The sales therefore do not exceed the transfers—with each sale an actualtr ansfer has actually, and legally, taken place.

one; sales on the Exchange compared to transfers have not yet arrived at any such percentage.

Insurance and Gambling

There have been, at very recent times, those who asserted that the insuring of lives was a form of gambling, and such insurance was prohibited by the laws of many lands. And it is only recently that insurance is seen to be an exact science, and not a gamble. The thought that a thousand men should each begin to pay in a stated annual sum, and that the first to die, having paid but little, could bequeath as much as the last to die, had the flavor of chance-taking and of getting much for little (to the families of those who died first) and of getting little for much (to the families of those who died last); and was said to be nothing but a lottery, and therefore pure gambling. In a lottery, as in gambling, some one gets all or nearly all, and the rest get nothing or nearly nothing; while in life insurance, all get an equal amount, although not at an equal expense. When the principles of speculation are fully understood, it will no more be thought of as gambling than insurance now is.

Speculation Investment

As "change and decay in all around we see," there can be no true Investment. Stability, continuity, and surety, do not exist; and, as their presence are required for true Investment, and as any modification of them produces Speculation, we see that Investment and Speculation are twin brothers, practically "Siamese twins," so closely are they allied, and so apparently inseparable. But Gambling is a pariah—not of the same blood, nor to be confused with Investment and Speculation.

FLOOR OF THE EXCHANGE. See also page 68.

WEALTH; MONEY; SECURITIES

"Since the time of the ancient Romans, I know of no nation that has enriched itself by its victories. Italy in the fourteenth century owed her wealth entirely to commerce; Holland would have subsisted but a very short time had she looked no further than the seizure of the Spanish Plate fleets and had neglected to lay the foundation of her power in India. England is ever impoverished by war, even when she is most successful against the naval power of France; and she owes all of her grandeur to Commerce."—Voltaire.

Kinds of Wealth

All material wealth has been shown to be in the form of property, which is divisible into real property and personal property.* From ananother standpoint, however, wealth is seen to be of three kinds—First: Natural wealth, such as lands (including mines and forests), and waters, and their products; Second: Created wealth, such as buildings, machinery, furnishings (including all forms of manufactures), and means of transportation; and Third: Credit. Wealth is customarily acquired by energy, saving or trade. Coined money is a form of natural wealth. Paper money is a form of credit. Securities may represent either natural or created wealth, or credit.

Commerce and Credit

The exchange of wealth is broadly known as Commerce, which includes trade, or business, Commerce being an inclusive term which takes in all forms of trade or business, while trade or business

*See page 19.

usually refers to some special form. Credit is a product, not only of commerce and business, but also of conditions not necessarily related to them; for instance, the credit of a business man is translatable into a money value, as when a loan is being sought; his credit, however, also relates to how his word is received and believed, under any conditions, such as where no loan is being sought, and this form of credit is reflected in the term "good-will." "Good-will," therefore, is a form of wealth, and so recognized in business and in law; it often occurs as a value in appraisals of business, especially in corporate forms of business; and is taken up as an asset, among the other assets of the concern.

Gain from Energy

The purpose of energy is gain—the purpose of gain is independence, power—power to purchase or secure service from others, and freedom of one's own movements. Independence implies not only present ease and security, but that of the future. The work of one man's hands rarely produces more than the needs of one man's household—with here and there perhaps a modicum of overplus, which he may waste or may save, according to his bent.

Gain from Savings or Trade

If saved, and hidden in the earth like the buried talent of the Bible, or in some other hiding place, the savings remain fixed, the amount not increased. If loaned to another at an interest rate or placed in a bank for savings, a moderate addition accumulates. If, however, the saver, bolder than most, uses his little hoard to buy

some useful and necessary article which he hopes to sell at a profit; or if he purchases an interest as partner in a small business; or if he buys a stock interest in a sound corporation, he may accumulate at a faster rate.

Risk

But in each of these, he will encounter a risk. His buried hoard may be stolen; the bank may fail or its officers be dishonest; he may not be fitted for business; the articles purchased may prove unsalable; his partner a rogue, his customers untrustworthy or the expense of business too high; or the corporation may prove a fraud, founded on false hopes, mismanaged, a failure.

Speculating Gains Losses

Each of the above operations, except burying the treasure, is a speculation. Burying the treasure is folly, but the others are in the last analysis, forms of speculation—money parted from in the hope of its return, plus an accretion, in profit, gain, or interest. Speculation has already been shown to be present in investment and in business. Of course, the proportion of risk encountered varies with the nature of the venture; but the hope is always had that the reward will be commensurate with the risk. This, however, cannot be the case, being dependent on the wisdom or unwisdom of the venture. "The greater the risk, the greater the gain," often should read "the greater the risk, the greater the loss."

Americans Great Speculators

The United States is probably the richest country in the world, much of it of modern origin. It has been said that the American people are

of all peoples the greatest speculators. This may be attributed to the enormous gains arising within recent years from the modern inventions below referred to, or it may be attributed to that desire for independence which fills every bosom. Whichever it be, it is quite clear that the speculative field has shown, and should continue to show, possibilities for rightful gain if exercised with *due business prudence.* Recklessness, however, is not speculation. "Speculation" means "taking thought," and "taking thought" lessens engagement in foolish enterprises.

Wealth of the United States

The wealth of the United States as reported by the Census Bureau in 1915* was $188,000,000,000, divided as follows: Real estate and improvements, 110 billions; railways and equipment, 17 billions; street railways, 9 billions; manufacturing properties, 15 billions; machinery and tools, 6 billions; live stock, 6 billions; agricultural products, 5 billions; furniture, carriages, automobiles, etc., 8 billions; clothing, jewelry, etc., 5 billions; and modern inventions, 8 billions, including moving pictures, etc., an increase of nearly 50% since 1900.

Securities in the United States

Against this wealth, or as representing it, corporations had issued 35 billions in bonds, and 65 billions in stocks. In addition, the Federal, State and City governments had issued about $25,000,000,000 of bonds. Of course, a bond is merely a promise to pay.† Over half of

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*Latest available figures.
†See Page 171.

the wealth of the country,* therefore, was represented by "promises to pay" or by certificates of interest of governments or corporations. The wealth of the country as reported in 1900 was $94,000,000,000, a growth in fifteen years of $94,000,000,000 or 100%, a large part of which is represented by property held by corporations.

Listed Securities

Of the 35 billions of bonds, and 65 billions in stock, outstanding and representing wealth of the United States, a little over one-third of bonds (say 13 billions) and a little over one-fourth of stocks (say 17¼ billions) were listed upon the New York Stock Exchange.† As to these securities, the fullest details were required by the Exchange, as set forth at length in the Listing Requirements.‡ These listings do not include 8½ billions of Government bonds, or take into account any of the Liberty Bond issues, all of which are listed on the Exchange.§ It will be seen from reference to any table of listed securities, that most of the best-known and standard securities are upon the Exchange, affording a ready market for those issues.

This Wealth of Modern Origin

If concern is manifested at the great growth of wealth, it must be remembered that much of the wealth of the world has arisen in the compass of a few years, from enterprises of very modern origin—such as steam railroads,

*125 out of 188 billions.

†"Listing upon the Stock Exchange gives a security a wider market and a more definite current value, making it easier to sell and easier to borrow on."

"Manifestly, a security privileged to be bought and sold on such an Exchange obtains a wider market and a more definite current value than one which is not."—House of Representatives Committee, 1913.

‡See Appendix.

§For details of listed securities, see page 179.

street railways, telegraphs and telephones, electric light and power plants—not to mention more modern inventions, for which wonderful uses have been found, such as moving pictures, wireless telegraphy, aviation, etc., and for which much capital has been required. The increased ease of communication, by means of railroads, motors, telephones and the like, has also enormously added to the value of land, so that land values have been benefitted by the modern inventions. The farmer, therefore, owes much of his prosperity, both directly and indirectly, to modern conditions, and is a party to the very material increase of wealth in recent years, which wealth has been made possible by the financing of the inventions referred to.

Wealth of Nations

No figures are at hand for a comparison of the wealth of this, with other countries, at the time referred to on page 86 (1915); but from such figures as are available, we find the following:*

Year	Country	Estimated Wealth
1904	United States	$107,104,192,410
1903	British Empire	108,279,625,000
1910	France	46,798,500,000
1900	Denmark	1,946,600,000
1908	Germany	77,864,000,000

Securities Abroad

In 1900, the estimated amount of the securities of the whole world was: Europe, $75,000,000,000; the United States $35,500,000,000; Japan, $1,125,000,000. Of those held in Europe, England held about one-third; France about two-fifths; Germany about one-seventh. The amount per capita was: England, $616.97; France, $500,94; Germany, $177.41. As compared with these, the amount per

*From *Eagle Almanac*, Brooklyn, N. Y.

capita in the United States was $414.54, more than in Germany, and less than in England and in France. The great mercantile nations of the world are the great holders of speculative securities.

Funds for Such Enterprises.

To provide the funds for such enterprises, Speculation was called into play. As has been very tersely said:

> "Speculation, though in the first place, pursuing its own interests, has so greatly contributed to provide Europe with the means of communication, to regulate commerce, to give more solid and real character to business, to keep down the rate of interest, to extend and consolidate credit, to limit usury, to make fraud more uncommon, that no prince, no minister, no philanthropist, actuated by the principle of self-denying activity, of benevolent instruction, of wise legislation, could exert anything like the same influence that has been exercised by the gradual removal of the barriers that opposed themselves to the free activity of the individual in the feudal arrangements of the Middle Ages."—From "History of Materialism," by F. A. Lange, Boston, 1879.

For Every Gainer, not a Loser

One of the mistakes of the unthinking is the charge that in Speculation, as in gambling, for every gainer there must be a loser. This is, of course, not true, as reflection will show. Let us take any operation in business—the growing of potatoes, for instance. The farmer makes a profit on his crop, the local shipper makes a profit in sending it to the city for sale, the wholesaler makes a profit, the retailer makes a profit—four profits, before the ultimate consumer buys it—each step a speculation. Has the ultimate consumer made a loss? Of course not. To illustrate from another business operation: The beginning of a new enterprise is broached; those who first subscribe receive shares at a low figure; sometimes they

receive a bonus (shares for nothing) to get them to subscribe; the affair is launched; if successful, the shares rise in value, are bought finally for investment at a high figure. But, if they are paying a commensurate interest, will anyone assert that the last buyer, who is receiving the high rate of interest, or any intermediate buyer is a loser? The same is true of a real estate purchase. When a new development is begun, lots are cheap—when land is new, farms are cheap; and as time elapses the land becomes more valuable. Does the purchaser at the present time who pays more than the land originally cost make a loss by buying it? Of course not. Loss in speculation is caused by *unwise buying*, as well as by over-trading.

Causes of Loss

Losses, sudden, drastic, overpowering, have come from unwise speculation. Perhaps no greater losses have come from any other cause, except war and convulsions of nature; they have flown from well known causes, chief among which are ignorance and disregard of the commonest business principles, such as engaging in unsound ventures, fake enterprises, schemes without merit; or in sound enterprises on insufficient capital.

Government Reports of Losses

From fake enterprises alone, the losses are so great as to be staggering. Such losses give an unenviable and undeserved reputation to speculation. By the report of the Postmaster General of the United States for 1912 it is shown that the loss by fraudulent mail order stock schemes uncovered by the Post Office Department is about $100,000,000 a year. Not a share of these fake

enterprises was listed upon Exchange, and could not be. Did the losers by these schemes and their friends blame *Speculation?* That was not speculation; it was anything but speculation. "Speculation" means "to look into." Had the definition of the word been considered, the money would not have been lost.

Money in the United States

Few men nowadays bury their hoard; now and again a miser is found, but his race is nearly extinct. Knowledge is too widespread to permit many of his kind to remain. The money of the world is in use. The amount of money in circulation in the United States on October 1, 1917,* including that held in the Treasury and the Federal Reserve banks, is placed at just over 5½ billions, or about $56 per person, reckoning on a population of 100,000,000. In 1789, when our Government began, with a population of about 3,000,000, it was placed at 48¼ millions, or $16.92 per person, an increase per person in 130 years of say 3½ times. Meanwhile, the wealth of the nation has increased many, many times. To equalize the disparity, checks, drafts, bills of exchange, but especially stocks and bonds, have come into use.

Average of Savings

The amount of savings in the United States cannot be accurately stated, but the amount in mutual and stock savings banks on June 20, 1917,* is given as $5,418,022,275.16 (just about as much as the total of money in circulation) and as belonging to 11,367,013 depositors—that is; one person in nine has a savings bank account, and if the money were equally divided, each would have about $475.

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*Later figures not available at time of publication.

Checks and Clearings

Cash, however, is rarely used in banking operations. By the simple expedient of checks and drafts, and by clearing them, cash is required in but small proportion to the amount of debt paid. For instance, during 1917, the average daily exchange of checks through the New York Banks' Clearing House was to an amount of over $600,000,000, and the average cash used was only about $40,000,000 or say 6⅔%; which, in plain language means, that for each $16 of business, only $1 in cash was required. The explanation of this system is too complex to consider here.* The relation of cash to clearings is about that of cash to deposits.

Other Money in Banks

Money is also on deposit in banks of different classes, such as National banks, State banks, private banks, trust companies; with the exception of a proportion of that in trust companies, this cannot well be classed as savings, being used in business, actively drawn upon day by day. Nevertheless, it is, in a strict sense, also saved money.

Total Bank Deposits

The total amount due depositors of banks on October 31, 1917, including savings banks, was $26,289,708,097,† of which only $1,502,452,094 was in actual cash, or about 5 6/10%—say one dollar in twenty. Against these deposits,

*See chapter on "Money Used in Speculation."

†See table on page 97

Resources Against Deposits

the banks held various resources, the total showing a surplus; but the interesting fact is the proportion of those resources in stocks and bonds. The chief resources were:

Loans and Discounts................	$20,492,442,263
Securities Owned by the Banks........	8,403,819,980
	$28,896,262,243

showing assets of nearly six times as much in stocks and bonds as in cash.

Stocks and Bonds the Best Asset

The figures show that there had been *invested* in stocks and bonds:

By the National Banks..32%	of	deposits,	or	$3,013,068,000
By the State Banks.....16%	"	"	"	890,717,114
By Savings Banks.....42%	"	"	"	2,291,168,780
By Trust Companies....31%	"	"	"	1,789,765,214
By Private Bankers.....12%	"	"	"	19,100,872
				$8,403,819,980

meaning that, of the amounts held by them in trust, they had put about 30% outright into *purchases* of stocks and bonds. The security behind the 20 billions *loaned* out by the banks is unknown; however, National Banks rarely loan on real estate, as they are permitted to loan only 50% of value.* Trust Companies usually loan on notes secured by collateral. Together they had out on loan, $13,130,003,359. As 50% of the wealth of the country is in property represented by stocks and bonds† it is not unfair to assume that at least one-half of this amount was loaned against collaterals consisting of stocks and bonds, making the total risk in stocks and bonds taken by the combined banks about 15½ billions, or about 57% of the total risk.

*Section 24, Federal Reserve Act. †See page 89.

Depositors in banks are therefore very much interested in speculation and in the Exchange.

Available Bank Resources

Banking resources must, necessarily, be readily available. Although National Banks are required by law to, and do, carry a reserve of between 15% and 25% in cash, according to the location of the bank as to reserve centers, yet the average of cash carried by banks is but about 5½%. Banks, therefore, carry the large amounts of readily salable securities shown by the figures, and also arrange that discount loans come due on varying due dates, so that a constant stream of money is being received from this source. And Savings Banks may require notice before withdrawals are allowed, often as much as 60 days.

Assets of Insurance Companies

The insurance companies are, perhaps, next to the banks, the largest holders of assets of others. From the subjoined table, it is seen that, on December 31, 1917, they had upwards of $5,000,000,000 of resources, of which over $3,000,000,000 were in stocks and bonds *owned outright* (60% of their assets); about one and three-quarter billions (say 35%) were loaned on bond and mortgage; a little over thirteen and one-half millions were loaned against collaterals (say ¼ of 1%), and about $180,000,000 in cash (say 3¾%)—or, 17 times as much of assets in stock and bonds, as in cash. Holders of insurance policies are, therefore, also interested in speculation, and in the Exchange.

Trade in Securities

With 125 billions of dollars (out of 188 billions) of the wealth of the country represented by stocks and bonds, and with bank and other assets showing from six to seventeen times as much of value in stocks and bonds as in cash, and with the necessity of having those assets in readily salable and exchangeable form, it is not to be wondered at that dealings in securities occupy so important a place in trade or commerce.

RESOURCES OF INSURANCE COMPANIES OF THE UNITED STATES*

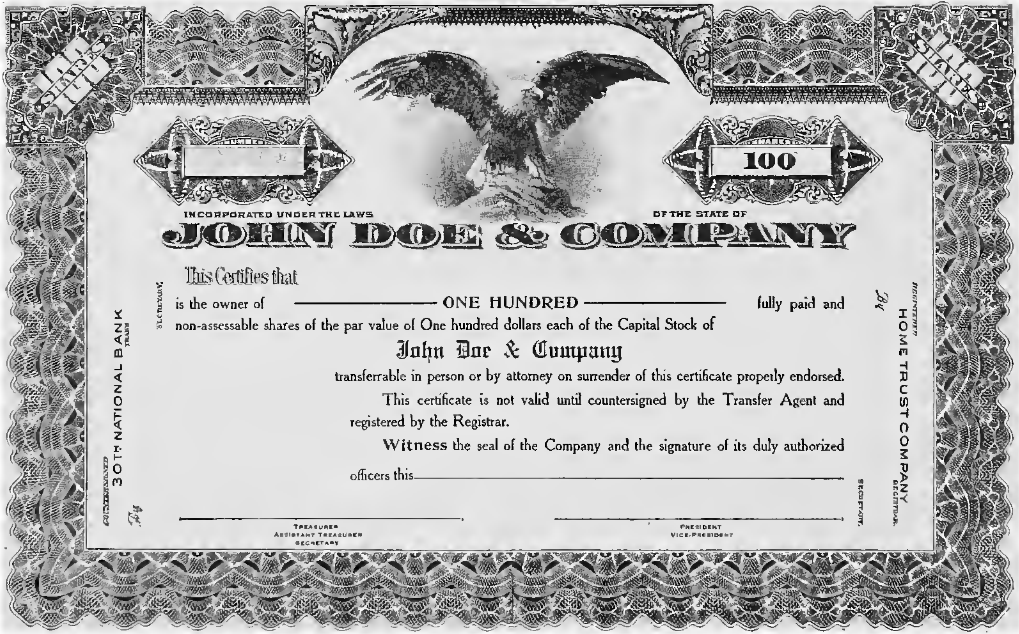
	Bonds and Mortgages Thousands	Stocks and Bonds Owned Thousands	Collateral Loans Thousands	Cash Thousands
Life Insurance...	1,651,000	2,378,000	9,798	85,882
Fire and Marine.	59,007	567,303	2,306	71,747
Casualty, Credit.	12,054	152,000	1,532	23,523
Assessment.....	572	2,436	.....	755
Co-operative....	213	290	.....	389
	1,722,846	3,100,729	12,636	181,278

RESOURCES OF BANKS OF THE UNITED STATES OCTOBER 31, 1917*

	Cash on Hand Millions	Stocks and Bonds Owned Millions	Loans Millions	Other Resources Millions
State Banks........	319	890	4,111	1,478
Mutual and Stock Savings Banks....	61	2,291	3,132	454
Trust Companies....	363	1,789	4,311	1,375
Private Banks......	6	19	118	53
National Banks.....	752	3,013	8,818	3,566
	1,501	8,002	20,490	6,926

Total Resources, over $36,919,000,00.

*Latest available figures.



FORM FOR STOCK CERTIFICATE

THE SMALL INVESTOR

"Small capitalists should invest their funds in well-authenticated securities."—Manual of the Stock Exchange, 1865.

Men speculate for the same reason that they go into business—to realize a greater return on their capital than comes from mere savings.

Save or Speculate

The habit of *saving*, of thrift, is one to be encouraged—one not to be departed from for any reason. The habit of *speculating* is one to be encouraged or discouraged, depending upon conditions surrounding the participant and the nature of his participation, which latter should always be upon the strict business basis already pointed out, viz.: after investigation, and upon capital and reserve enough to warrant the venture.

Shall I Speculate?

Most men ask this question of themselves. The answer is one only each should or can make. It is a big question; and the overbold may well stop to consider its manysidedness, its possibilities, advantages, and *dangers*. However, the banks have invested outright one-third of all their money in stocks and bonds; the average person has their example that one-third of his savings might conservatively be risked in buying securities—"securities", that is, something which is secure; as nearly secure as possible. Shall he, however, buy for all cash, or on part payment? The matter

of Margin Trading is too broad to be discussed here.* For the man of average wealth, investment-speculation or speculative-investment (purchase for income with possibility of incidental profit) would seem preferable to frank speculation (purchase solely for possible profit).

What to Buy

The example of the banks would seem a wise one to follow, and if followed, safer speculation would undoubtedly ensue.† The laws of New York State and of other States, provide what securities Savings Banks and Trustees may invest trust funds in—which information is given elsewhere herein. The following is the suggestion of a house dealing largely in securities for small holders:

1. The time-tried test of consecutive dividend payments over a long period of years.
2. Consistent large percentage of earnings over dividend requirements.
3. Sound financial condition at the present time.
4. Promising outlook, as far as can be determined, for the next decade or two.

Bank Interest—How Earned

Savings banks are expected to pay interest on deposits. This is customarily allowed twice a year; but amounts withdrawn between interest-payment dates, usually earn no interest. Many private bankers, trust companies, State banks allow interest on deposits. However, to pay interest to depositors, the bank must earn it. A bank's income sources are from loans on mortgage or to business men, and from ownership of stocks and bonds. Allowing for the reserve mentioned in a preceding paragraph,‡ which

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*See Page 129.

†That is, one-third of capital engaged, in selected securities, and with ample reserve.

‡Page 96.

banks must maintain, the interest earned by them must be at a notably higher rate than that which they pay depositors.

An Example For example, a bank which must maintain a reserve, of say 15%, can loan out only 85% of its assets. If its assets are $200,000, it can loan out only $170,000. Conducting business calls for certain expenses, say $5,000 per annum. If the bank pays interest on deposits at the rate of 3%, it must earn 3% on the whole $200,000 of assets (or $6,000), and must earn also $5,000 for expenses, a total of $11,000, and must therefore earn about 6½% on the $170,000 loaned out, in order to pay expenses and interest at the moderate rate of only 3%, and come out whole. As has been shown, the bank's sources of income are from money loans at an average of, say, 6% and from investments in securities, subject to market fluctuations.

Unescapable Speculation Speculation seems unescapable. All business is done at a risk; "a large speculative element is involved in trade of every kind." The business man does not know how his ventures will turn out; the farmer does not know how his crops will turn out; even the man who works for someone else takes a speculative risk as to the success of his employer; the affairs of men of every kind are shifted hitherward and thitherward by forces over which they have no control, and as to which the best they can do is to forecast the future and endeavor to provide means for every contingency. Such forecasting is speculation. The possibilities

in the immediate past are shown by the enormous increase in wealth of the country in the past decade and a half.

Unconscious Speculation

The depositor in a bank is unconsciously a party to the risk of every bank—one directly to do with its stock and bond investments, the other with its business loans, both a form of speculation.

The Average Depositor

The average depositor, with his \$475, could not hope to make a loan to a business man—the business man he would trust with his money would not want to borrow so small a sum; and the man who would want so small a sum he would not wish to lend to. He could hardly hope to go into business with so small a sum; it would pay him better to remain employed, and keep his money also employed. He could not lend so small a sum on mortgage. His only fields for accretion would, therefore, seem to be bank interest or bond or stock investments.

Stock Ownership

Through the buying of a stock, he can secure an interest which, if he purchase *wisely*, should pay him more than mere savings bank interest. With \$100 he can most likely buy a share in his local bank, managed by men about whom he knows everything; or in the local traction company, electric light company, gas or water company, or perhaps one of the big dry-goods stores. He is thus at once in partnership with the best brains in his community—a relation he could never hope to get by any other means with his limited capital.

He has, also, a say in the business, in selecting its management, and in the various matters which come before stockholders. His bank can usually be depended upon to advise him in his investment-speculation.

Unlisted Stocks

However, should he wish to sell his share, he may meet a situation which the Stock Exchange obviates† —his market may be "very narrow" —with but a few persons interested in what he owns or who would care to buy it. Outside of those especially interested in the particular business, he might find no one who would want to buy; and those within its circle would, of course, want to buy at a price to show them a profit. Still, if they do want to buy; the price would most likely not be far from original cost; and meanwhile, the return, if the purchase was a wise one, would be as much as from bank interest, not to speak of the sense of pride which the ownership in so high-class an enterprise has engendered. The moral effect of such ownership is something not to be measured in money.

A Narrow Market

The main difficulty would be if no one cared to buy; or, if those who would care to buy, display no interest, and create the impression of unwillingness to take on more of the stock, which impression, of course, might only serve to accelerate the desire of the holder to sell and perhaps cause him to sacrifice his holdings. This would not usually occur in a listed stock.*

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*See footnote on page 87, giving opinion of House of Representatives Committee that a listed security has a wider market, and a more definite current value, than an unlisted one has.

†See chapter on "Money, Stocks and Bonds."

Odd Lot Trading

That the average man, with his average wealth, is becoming more and more interested in investment, speculative-investment, and frank speculation, is evidenced by the business in small lots of stock, known familiarly as "odd lots," and in small bonds, known familiarly as "baby bonds."

Saving While Speculating

Recently a large proportion of the business on the Exchange is that done by persons who, while buying stocks and bonds are saving to make monthly payments to complete ownership of the securities thus bought. This is a good example of investment-speculation.

Unit of Trading

The rules of the Exchange provide that the unit of trading shall be one hundred shares, and that unless otherwise expressed, all bids and offers shall be construed to be for that number of shares. However, amounts of other sizes are dealt in, some larger, many smaller. The smaller lots are called "Odd Lots."

London Unit

The unit of trading in London is ten shares, and there have been attempts to go to that unit in this country. But the manner of trading differs in London; there they have two classes of brokers, commission men and dealers. The customer does not come into contact with the dealer; the dealer does not report the amount of his trades; there is no daily settlement, as in New York, and many

other differences in customs prevail; but American shares dealt in, on arbitrage, are dealt in in hundreds. It is felt that to undertake to put the unit here to the London basis would prevent public bidding and offering, and the printing of transactions of one hundred shares or over, as now, which would be a decided setback to proper supervision of business and the publicity of dealing which has given the Exchange its high repute.

Growth of Small Business

In these days when "big business" is so much spoken of, it is interesting to find that small business has done many things as well. The growth of small ownership of stocks has given increased steadiness to speculation. The numbers of shareholders in companies has steadily grown, while the size of holdings has steadily decreased. For instance, in one large railroad company there were in 1917 100,038 shareholders, with average holdings of 99 82-100 shares; in a large telephone company in 1917 there were 79,776 shareholders, with average holdings of 50; and in a large steel manufacturing company there were in 1917 132,052 holders with an average of 68 shares each. We no longer find the great enterprises dominated by some single interest; instead, the small stockholder has it in his power to control, when he concludes it to be to his advantage to do so. This has been largely due to the facilities afforded by odd lot trading on the Exchange. The volume of small business is so great that it has been found impossible in busy times to report it on the tape.

Odd Lot Specialists*

When this business began, some thirty-five years ago, but one firm was engaged in it. To-day several firms make it a specialty, and perhaps one hundred brokers handle only odd lots. These brokers are specialists in small amounts, just as other brokers are in larger amounts. Long acquaintance with them has brought their fellow members to entrust to them their orders, and to unhesitatingly take their reports. There has never been a case of dishonesty shown in an odd lot broker. With the large volume of orders they are compelled to handle, complaints necessarily arise; but their adjustments are accepted because of their proved business standing.

Bucketshops

When the Exchange made its first fight on the bucketshop it little knew to what an extent virtue was to have its reward. The elimination of the big bucketshops has brought to the Exchange the speculation which bucketshop frequenters thought they were engaged in in those shops, when instead they were really engaged in being cheated. The business in small lots was the backbone of bucketshop trading, and specially encouraged by them. It seemed easier to cheat the small buyer than the big one; but bucketshopping is now a national offense, and the business now comes to the Exchange, where it is given as much attention as that in larger lots.

*"During the past forty years there has been developed in the stock market a group of brokers, or they should be called dealers, who give themselves up entirely to making a market in any lot of less than one hundred shares. They stand ready at all times to buy anything from one to ninety-nine shares or to sell anything from one to ninety-nine shares, at a slight concession from the general market."—H. G. S. Noble, before Senate Committee, 1914.

Falling Markets

The small lot business is particularly noticeable in falling markets, when it seems to grow overnight. Much of it is done for cash, and the shares taken at once from the market, thus not only bringing out hidden money but staying the market. To-day the speculation in small lots is perhaps as great proportionately as in large lots. The small man understands the value of buying on borrowed capital fully as well as the bigger man, and he is often as good a judge of market conditions. Having little which he can afford to lose, he is careful how he risks it, which is fundamentally the basis of successful speculation.

Catering to Small Lots

Many houses, especially in fields where bucketshops have gone out of business, make a specialty of soliciting small lot business, upon the usual margin terms. These houses have a minimum commission charge. The commission of 12½ cents per share would not meet the expense of handling one share, and many customers buy as little as one share. Ten shares seems to be a fair average. As much bookkeeping, letterwriting, postage, office expense are required of a one-share lot as of a thousand-share lot; so a minimum charge of $1.25 or the commission on ten shares, is charged; with the regular charge on amounts above ten shares.

Partial Payment Plan

The idea of the partial payment plan is to pay something down, and then a fixed, regular sum on the first (or some other fixed) day of each succeeding month, until full payment is made. With most plans, this full payment

is arrived at within a year from date of first payment. The customer is privileged to pay more than the stipulated monthly amount; his failure to pay the regular amount is said to make it "a regular margin account." These plans are really margin plans, with a greater initial payment; they all provide that further payments may be required, should the necessity arise. Indeed, without such a provision, the plan would not be sound. In great market declines, those with large credits would be supplying the money for the stocks of those with small credits —not only dangerous to the man with large credit, but contrary to business honesty and common sense. The initial payments are fixed at a figure which makes it little likely that further demands may be made; but if made, they must be met.

The Plan The usual plan is about as follows:

	Per Share First Payment	Per Share Monthly Payment
On Stocks selling under $30.......	$10	$2
On Stocks selling between $30 and $50..........................	15	3
On Stocks selling between $50 and $100..........................	20	5
On Stocks selling between $100 and $150..........................	30	5
On Stocks selling between $150 and $200..........................	50	5
Stocks selling above $200 per share are bought only on special terms.		
	Per Bond	
On Bonds of $100 face value.......	$10	$5
On Bonds of $500 face value.......	50	25
On Bonds of $1,000 face value.....	100	50

Listed Securities Only listed stocks or bonds are bought, under such plans, and only such of these as the broker does not object to—that is, he has the right to object to the purchase of certain securities,

perhaps, because they seem too high, because their prospects appear too uncertain, because their past history is unsatisfactory, or for some other reason. If such a rule were made by every broker as to every purchase made for his customer, much obliquy now cast upon speculation would be avoided. The broker, however, assumes no responsibility as to the stocks he does permit to be purchased.

Value of the Plan

The plan is not unlike that adopted by the various Building and Loan associations, through which many persons, who would otherwise be unable to buy homes, do so. The general relation to the speculative characteristics of real estate and stocks have been pointed out hereinbefore, and again in this characteristic they are closely related in effect. It must be clear that the general adoption of such a plan would result in greater savings accumulations than by merely banking one's funds. The effect of its general adoption should result in further extending the greatly growing number of holders of stocks in the best known and steadiest paying corporations.

Price of Odd-Lots

Odd-lots may be bid for and offered, in the usual way, in the "crowd." But the general custom is to send in the odd-lot order to the odd-lot broker, who buys the stock in the one case and sells it in the other; there is no fixed rule as to the divergence of price from that of larger lots, but it is usually one-eighth away from that market. In his testimony before the Senate Committee on Banking and Currency, in 1914, President Noble said the divergence is often less than one-eighth.

Speculation in Odd-Lots

Speculation in lots of stock of less than one hundred shares has steadily grown, until today it is perhaps equal in amount to about 30 to 40% of that in larger amounts, so that on a million share day, the odd lot business would amount to say three hundred thousand shares. The same conditions surround speculation in small amounts as in larger ones—and wise realization of these factors make the difference between success and failure in them, as in any speculation.

Liberty Bonds

Perhaps the field in which installment payments or partial-payment-plans have been most widely used is that of the recent issues of Liberty Bonds, which, under the direct desire of the Federal Government, have been carried by the banks and by employers generally on a weekly or monthly payment plan, the special purpose being to inculcate the habit of thrift. At another point herein is given the present market position of Liberty Bonds, with the market opportunities arising therefrom.*

*See chapter on "Market Opportunities."

MARKET OPPORTUNITIES

"Nothing risked, nothing gained."—Old Proverb.

Trading for a Profit

It seems natural for the American to trade. Taking a risk is ingrained in his blood. The ancestors of every American took their lives and their fortunes in their hands when they started from their original European or other home for this land of promise; and repeatedly thereafter, they have encountered risk after risk. All around them, they see how taking a risk has resulted in Fortune's smile—and something in the very air puts into the blood the feeling that what some one else has done they also may do. It is said the American is a "born trader"—that the Yankee can "make a living trading jack-knives"; and foreign nations have charged us with having in mind only the making of a profit. It is but natural, then, that the question, "What shall I buy?" should be present in the mind of many Americans.

Forms of Trading

Trading takes as many forms as there are kinds of people. Some trade houses; others start a small business, build it up, sell it at a profit and buy another, intending to repeat the process; some trade horses, but this has given place to the more modern business of trading automobiles. Some trade in stocks and bonds. But all, sooner or later, take their turn in making a trade.

Average Wealth

The Census Bureau fixes the wealth of the country at the close of 1915 at $188,000,000,000, a growth in fifteen years of ninety-four billions of dollars—an increase of 100% since 1900. With this enormous increase taking place under the eyes of all, is it any wonder that their attention is turned to "adding a little to what they already have?" With $188,000,000,000 of wealth, and 100,000,000 of population, the percapita wealth of the American citizen is seen to be $1,880; with total savings of $5,418,022,275.16, belonging to 11,367,013 depositors the savings bank deposit is seen to be about $475 percapita. The average man, with an average wealth of $1,880 and an average savings of $475, can hardly engage in a mercantile business, or in buying of houses or mortgages, as a regular pursuit, and he may not care to trade horses or automobiles. What can he safely do to improve his financial condition other than let his meagre hoard gain common interest? The *investment* market seems to present opportunities through which his moderate wealth may be increased.

Not a Tipping Bureau

Everyone in the financial world is met with inquiries as to his opinion on given stocks or as to general market conditions, and is importuned for suggestions as to what to buy. The remarks which follow herein are not intended as "tips on the market"; they are merely a general review of what the market shows, and of the various sorts of investments—with some discussions as to their respective merits. Many reputable brokerage houses publish booklets, show-

ing the dividend and price record, over a long term of years, of listed stocks and bonds. Reference to such information should assist the trader in securing knowledge of what stocks to buy based on their record—and record is of prime importance in investment and in speculation.

Successful Trading

Many theories have been advanced as to the best way in which to succeed in speculation. The "wave" theory of speculative movements is one much believed in.* Many brokerage offices have statistical departments, the business of which is to follow the movement of stock prices, and on such movement many speculators "for a long pull" base their commitments. The operator for the "short pull" usually bases his transactions on current information and the "story of the tape" —that is, the relation of price changes to each other and of changes in one class of stocks to those in the others. The railroads, the steels, the telegraphs, the rubbers, the motor stocks, are often each considered as a class, and news which affects stocks in one company often affects stocks of other companies in that class. Also, what would be good news for one kind of business might be bad news for another; and the market records of the past are relied on to some extent to show what is likely to

*Briefly put, this theory is: 1. That bull markets and bear markets follow each other in periods of from three to five years. 2. The buyer should trade only in the dividend-paying stocks, buying when they have reacted say five points from immediate rise, and if they fall another five points, buying another lot; the reverse being true, if selling short. 3. Have money enough to see the decline through without strain to resources. 4. Do not switch from one side of the market to the other; select your stock, from sound personal investigation, and back up your judgment. 6. Buy only small lots. 7. Never allow success with small lots to create the impression that you can do the same with large lots, thereby allowing your reserve capital to become dissipated in original purchases.—Condensed from A B C of Speculation, S. S. Nelson, 1905.

occur under similar present conditions. To undertake to closely follow these price changes would mean the abandonment of one's usual livelihood, and the application of all one's time and mentality to stock trading. When one has arrived at this state of mind, he had better at once decide to devote his whole effort to it as a business, buy a membership in an Exchange and save commissions; if he cannot afford that, he should give up speculating.

The Intention When Buying

"It is an old saying in Wall Street that the man who begins speculating with the intention of making a fortune usually goes broke. Whereas the man who trades with the view of getting good interest, sometimes gets rich."* The illustration used by Emile Zola, in his novel "Money" is apropos in this connection. He mentions an elderly man who traded daily in a moderate way, and who is sneered at by his nephew, a plunger, living at the time in grandeur from his speculative gains, but who, in the end, comes to his uncle for support. If the purchaser intends to be an investor, and to insure a fixed income, without regard to incidental possibilities for profit, he should select Government bonds, "gilt-edged" railroad and industrial bonds or the preferred stocks of companies whose business is stable, and which have paid dividends without lapse. If he can afford to take some of the risks which go with investment plus speculation, the list of stocks and bonds upon the Exchange show many securities on which the yield is fairly secure and the possibility for profit apparently reasonable. If he intends to

*A B C of Speculation.

speculate, and only speculate, he can find companies, whose business is just beginning, who are making some dividend payments, whose output seems highly salable, and whose future looks bright.

What to Buy

The success or failure of a transaction depends upon the correct answer to "What shall I buy?" and "How much shall I pay for it?"* Every stock speculator, as well as every business speculator (that is, business man), must be both a good buyer, and a good seller. The profits are made in the *buying;* even though the sale precedes the purchase (as is the case with the wholesaler and manufacturer, and with the short-seller) the purchase must always be at a less price than the sale in order to secure a profit.

Good Advice

Good advice should always be sought, but it is easier to ask for than to get. The example of large buyers is often the best guide; the banks and insurance companies are the largest buyers of listed securities. The extent and character of their purchases is referred to in the chapter on "Wealth, Money, Securities." What good buyers have bought, if obtainable at the same price or better, and at similar or better market conditions, would seem a good purchase.

Poor Advice

Interested advice may not be so difficult to obtain. Unsolicited advice or suggestion is often the worst kind one can receive. Flamboyant advertisments, tips from strangers, invitations to let others manage

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*These are two of the risks of both business and speculation as stated on pages 24 and 25.

your account, if followed, result in loss and only loss. One's own investigations, if carefully made, based on present market conditions and past record of the securities looked into, is often a better guide than the advice of others. Cultivation of one's own judgment is an education not to be despised.

Business Men in Speculation

Many merchants follow the stock market, because they see in it indications of the future. Often they invest their surplus in stocks and bonds, because (1) the average return is as great as on banked funds; (2) stocks and bonds can usually be turned into money, either by sale or upon loan; and (3) the opportunities for profit, from such large variations as those pointed out below, is often as great as those which could be realized from slower-moving merchandise. These men, however, are not habitues of brokerage offices, or hangers-on over the tape.

Time-Tried Securities

We have elsewhere alluded to the conditions under which the trader should enter the market. If he does not intend to pay cash in full he should make a liberal first payment, and have, after that, reserve enough to see his purchase through. He should, to be as nearly safe as possible: 1. Trade in "time-tried" securities, with a record for consecutive interest or dividends over a long period of years; 2. Which are in sound financial condition at the time of purchase; 3. And which have a good outlook for the future. The inexperienced trader cannot go far astray if he confine himself to such circumstances and such securities.

Government Bonds

United States Liberty bonds are, of course, the best investment. They are as secure as anything in this world; and are free from all forms of taxes, so far as the average man, with his average wealth, can be concerned. They are selling today at a slight discount, so that they yield a small percentage above the interest stated on their face, and the market for them is so broad as to make them at once convertible into cash. For the person to whom security is the important item, nothing can compare to this form of investment. The great market for Government bonds is the Exchange. In no other market has there been so great trading in these bonds as recently occurred, viz., 13½ millions in one day. There is, of course, also a speculative factor in the difference between their price and their face.*

Redeemable Bonds

For the person who wishes to combine profit with investment, the bonds which are redeemable above par, prior to their due date, offer some inducements. Recently the bonds of a large copper company, a 6% issue, were redeemed in bulk at 110. The bonds themselves had been selling around par and gradually got up to 105%, being $1,050 for a $1,000 bond, or $525 for a $500 bond. They were redeemed as stated in bulk, the redemption price being $1,100 for the $1,000 bond, and $550 for the $500 bond of that company. Of course, while the

*A 4¼% Liberty bond, selling at 96% and due in 10 years will cost $960 and be redeemed at $1000, (a profit of $40); the interest of $42.50 per annum is almost 4½% on cost. The total interest of $425, plus redemption price $1000, shows a yield on cost of $960 of almost 4⅞%. A $100 bond will pay at the same rate and proportion of profit.

A 4% Liberty bond, selling at 92½ and due in 10 years will cost $925 and be redeemed at $1000 a profit of $75; the interest of $40 per annum is about 4⅓% on cost, but the yield would be just over 5%.

bond is being held for the interest earned, it is an investment; and the possibility of it being redeemed makes it at the same time a speculation. Many issues of bonds provide for an annual redemption. The United States Steel sinking fund 5% bonds are redeemed $1,500,000 per annum. The numbers of outstanding bonds are put into a wheel, and 15,000 slips are withdrawn, each bearing a number. The bonds so numbered are then referred to as "called" bonds, and on the date provided in the "call" are sent in and paid for at the redemption price of $1,100 per $1,000 bond and accrued interest. Thus speculation is combined with investment.

Convertible Bonds

Another class of bonds which provide speculative opportunities is the convertible bonds. As is probably clearly understood, the bondholder is a *creditor* of a company, while the stockholder is the one who must pay the debt. At the inception of companies, or possibly at such times as more capital is required, bonds may be issued, instead of more stock—that is, money may be *borrowed* instead of being supplied by these who are running the enterprise. Also, if a company is earning dividends greater than ordinary interest, it pays better to issue bonds than stock, because the bonds will be eventually paid off by the accruing earnings, and the stock will therefore benefit by these earnings being thereafter applicable to payment of dividends. Often, however, the same persons who are stockholders are also bondholders; and companies quite frequently make issues of bonds which give their holders the right at stated periods to exchange such bonds for stock. By such exchanges the company

reduces its debts without parting with any of its money. The possibility of profit arising from "arbitraging" between such bonds and stock is often great and the changes in price of bonds and stocks of this character are eagerly watched by the investor.

Preferred Stocks

Those who wish to have a broader opportunity for profit, yet safeguard themselves to a fair degree, most naturally turn to preferred stocks of companies who have good dividend records. The preferred stocks of today are usually at a six or seven per cent. rate. Some share in earnings of the common after the common has received a proportionate share with the preferred; thus, if a company has 10% for distribution, the preferred stock first receives its 7%, the common then receives 7%, and the other 3% is divided equally between them. The investment return on many preferred stocks seems as secure as on many bonds; and the speculative opportunities are immeasurably greater. Of course, where a preferred stock is limited to its stated percentage, with no further participation, its price is practically fixed; and cases are often seen where a preferred stock sells for less than the common stock of the same company because of the greater earning possibilities of the latter.

Listed Stocks and Bonds

We are here considering only listed stocks and bonds.* While it may be the case that occasionally an unlisted stock or bond has as great a field as those which are listed, yet the advantages provided by the market in listed securities are far greater than those on unlisted issues. The market

*It should be borne in mind that interest paying bonds *on the Exchange earn interest for the holder, up to the day he sells them.*

in unlisted securities must always be practically in the hands of the promoters or bankers; while the market in listed securities is practically in the hands of the public—in the one case, the insiders usually control the market; in the other, the market is usually not subject to such control.

Income Tax as a Factor

The possibilities of taxation influence the price of some securities. Bonds of States, Cities and Counties in the United States, rank with or even better than bonds of the general Government, with respect to taxes. The income from State, City and County bonds is usually free from income tax; certain of the Liberty bonds are also free from such tax. This tax is a factor of moment to the large holder of securities; but to our average investor it is a negligible quantity. With his small capital, taxes play but little part. On incomes of less than $1,000, he will have no tax to pay; if he receives his income only from stocks, or tax-free bonds, he is free from income taxes until his income reaches $6,000. Personal taxes are not assessable against stocks or incomes from them,* but are against that received from bonds. Broadly speaking, to the man of average means, the tax question is of no moment; to the man of slightly better means, conservative investments in stocks are less likely to be taxed than those in bonds or mortgages, or even than cash in bank.

"Taking a Flyer"

There is a class of speculator who seems ready to take any chance, and run any risk; he accepts any sort of tip, and seems content with whatever the outcome may turn out to be. His

*Because the company itself pays a tax on its property.

ventures are called "taking a flyer." The proportion of such ventures to the whole market is but small; yet it is sufficiently large to give rise to the unwarranted feeling that speculation is mere gambling. This subject is discussed elsewhere, and it is clearly established that the taking of foolish risks by reckless persons do not turn a legitimate business into an illegitimate one. Because a person with an unbalanced will persists in "rocking the boat" is no reason why others with steady minds should give up boating.

Bank and Bond Interest

The total savings bank deposits in the United States are $5,418,022,275.16. The average interest paid on such deposits is probably not over 4%. Interest is credited twice a year, and sums deposited between interest payment dates earn no interest, and sums withdrawn between such dates are credited with no interest; therefore, money put in and money drawn out between those dates is unproductive. And, if the bank so decides, the money is not even withdrawable on demand, the bank being permitted to require sixty days' notice of such withdrawal. An interest-paying bond can be sold at practically any minute, and interest runs up to the time of sale. For instance, with $500 in the bank needed on March first, the bank could decline to pay until May first, and the four months' interest on the $500 would not be paid to the depositor; but the owner of a bond for $500 if the money were needed on March first, could sell it on February twenty-eighth and receive the money on March first, plus two months' interest; if sold for delivery on May first, four months' interest would be added to the money

paid the seller. Bank interest is generally allowed twice a year; bond interest generally four times a year; while this difference is slight, yet on redeposit, the money is compounding four times a year as to bond interest, as against twice a year as to bank interest, which would show a very marked advantage in the course of a few years.

Mortgages

Mortgages on real estate are considered amongst the most stable of investments. Bonds sold on the Exchange are generally mortgages on real estate and improvements, the character of the security being described in the bond. A first mortgage bond is practically identical with a first mortgage on real estate. It has all the protections of the latter, and escapes many expenses, if foreclosure is necessary.

Bonds or Mortgages?

Bonds are issued in pieces of $100, $500, $1,000 and larger. Mortgages for less than $1,000, or even so small, are rare. Therefore, the ordinary savings bank depositor, with his average wealth of $475, could hardly buy a mortgage; but he could buy one of many high-class bonds with his $475. He can sell his bond, as has been shown, at practically any moment, and get his money the next day with interest to date; but he could hardly sell his mortgage, except at a sacrifice, compared to which any slight change in the market price of his bond would be negligible.

Guaranteed Bonds

Mortgages are frequently guaranteed by Title Companies, at an interest rate a little lower than the usual rate, bringing, say 4½%. Many railroads of high standing guarantee bonds of

underlying companies. Numbers of such bonds are selling at a price on the Exchange which shows a return of 5% on the invested amount, and in addition, a profit on maturity. Thus, on a 4% guaranteed bond, quoted at 80 and therefore costing $800, maturing in 25 years, the holder would receive $1,000 in interest in the 25 years, and $1,000 for the bond on maturity—a total return of $2,000 on an $800 investment, or an excess of $1,200, being actually 6% on the investment, as against 4½% on a real-estate guaranteed mortgage or 4% from the average bank deposit.

The Price

"The first thing a man asks when he wishes to buy, is 'The price.'* Every minute of the day, all over the world that question is asked."† And every minute, the prices on the Exchange are given publicity, as a guide to investment and speculation.

Listed Bonds

On March 1, 1918, there were 1,371 issues of bonds listed upon the Exchange. Of these, 1,326 were "interest-paying" bonds—that is, only 48, or 3½%, of the listed issues were not paying interest. There are no figures at hand as to the proportion of real estate mortgages which cease to pay interest, and on which the mortgage holder is compelled to foreclose on the property; but it must be clear that it is much in excess of 3½%. Of the defaulting bonds, 40 were of railroads, 3 of industrial companies and 5 of State bonds. The listed bonds covered issues as follows: Railroads,

*There is no other way in which the true price can be made. If the prices so made are not the precise truth in every case, they are the nearest approach to it mankind has yet discovered."—Horace White, "The Stock Exchange and the Money Market."

†"The Stock Exchange from Within."—Wm. C. Van Antwerp.

948; manufacturing and industrial, 81; coal, iron and steel, 29; telephone and telegraph, 22; miscellaneous, 63; gas and electric, 61; State and county, 24; New York City and county, 61; street railways, 82, a total of 1,371.

Securities the Bank Buys

The money in a savings bank is the property of the depositors, and any investment or loan made by the bank is made in their interest.*

Bond Earnings

Figures made as of March 1, 1918, of the bonds on the Exchange, showed as follows:

Class	Average Price	Average % on Price	Profit, if held to maturity
Railroads	84.1	5.43	15.2
Manufacturing and Industrial	90.7	5.07	9.3
Coal, Iron and Steel	91	5.66	9
Telephone and Telegraph	88.1	5.03	11.9
Miscellaneous	86	6.12	14
Gas and Electric	82.5	6.05	17.5
States and Counties	97.9	4.02	2.1
New York City and County	89.5	4.52	10.5
Street Railways	72	5.78	28

These figures are very intricate in the making, and not so clear in the stating; but, broadly speaking, they show that the rate of interest paid on bonds on the Exchange is well above that paid on the average bank account, 4%. State bonds pay the least, 4.02%; and New York City bonds the next, 4.52%; but these have certain advantages as to taxation, making really a larger net where the holder is well-to-do. The average of all interest paid is about 5.3%, or nearly one and one-third times the

*There could seem no reason why a depositor should not invest his money in the same security the bank does, and, if possible, receive a larger return on his money.

average bank rate; and, if held to maturity, an additional profit is available in the difference between the cost price and the face of the bond.

Earnings from Stocks

The average bank deposit earns, say, 4% interest. The average unguaranteed real estate mortgage earns 5%. What does the average stock earn? Figures taken from the Exchange list, on March 1, 1918, show as follows:

	Paying Dividends	Average Price	Average Dividend on par	% on cost	Not Paying Dividends	Average Price
Railroads	106	$86	5½%	6.4	76	$22.00
Street Railways	22	77	5 %	6.5	8	12.75
Industrials	262	79	8¾%	11¼	57	36
Mines, including Coal and Iron	37	48	15 %	31⅜	11	20
Banks, Trust and Insurance Cos.	41	..	20	..	3	..

The average interest earned on dividend-paying stocks *at par* is above that paid by bank or mortgage, and the actual percentage *on cost* very much above such rates. It will also be seen that the prices of the non-dividend paying stocks is of themselves information to the intending speculator-investor that their purchase would be a speculation only. As an instance of the opportunities for speculation in sound securities, it may be said that the stocks of three of the best-known and steadiest-paying railroads varied in 1917, as follows: One stock had net changes of 17 points, another of 41 points, another of 29 points; during all this time, these roads were paying their dividends.

Expense of Purchase

Practically the same items of expense are met in buying a stock or bond, and in buying real estate—such as broker's commission, title search, recording fee and taxes. On a stock the broker guarantees title, so that no extra cost is entailed for that item. The usual commission on a purchase of $10,000 face value is $12.50, the transfer fees, or recording fees (State and Government taxes) on stocks, $4, being borne by the seller. On real estate, the broker's fee is seldom under 1%, or $100; title search and guaranty, about $30; recording fee, about $2.50; mortgage tax, ½%, or $50—a total of $182.50, or over eleven times the expense on a purchase to the same amount, $10,000 of a stock or bond. If the real estate broker is asked to borrow any part of the needed money, he receives a further fee of from ½ to 1%.

How Insurance Companies May Invest

It has been shown* that the insurance companies doing business in New York State are carrying as assets about 1¾ billions of mortgages; just over 3 billions of owned stocks and bonds, with 13½ million loaned on such securities; and that the cash on hand was about $181,000,000 out of total assets of over $4,800,000,000—a little over 3½% in cash, with about 60% in stocks and bonds. Insurance companies can legally invest their capital in Government, State, and City bonds at not over par; in real estate mortgages at not over 66⅔% of worth; and other funds in stocks, bonds or notes "of any solvent institution incorporated under the laws of

*See page 97.

the United States, any State thereof," with certain reservations as to stocks of other insurance companies. These companies publish in full the list of stocks and bonds owned, with appraised values.

How Savings Banks May Invest

Savings banks in the State of New York may invest only in real estate mortgages and bonds of States, cities, counties and of approved companies. No part of their funds can be put into stocks. It has been shown that they have $3,132,121,585 invested in mortgages and discounted paper, and $2,291,169,280 invested outright in securities, being 52¾% and 38½% of their total resources of $5,938,932,136.

PART OF THE BOND CROWD

MARGIN TRADING

"When a speculator cannot pay over the full value of a stock, the broker may favor him with a loan."
—Manual of the Stock Exchange, 1865.

A Margin Purchase

A margin purchase is unlike any other purchase. If I buy a house or a piano on a part payment and the next day the price of such a house or piano has changed materially, I am not called on to at once make an additional payment or have my house sold or my piano seized; but if I buy a stock on part payment, and the market value of the stock declines materially, I may be called on to make a further payment at once, or suffer such a sale and possible loss.

Margin Calls

Why is this? What is there in the nature of the purchase of a stock on part payment which makes it differ from the purchase of any other property? Is not the very fact that I can be called on, as outlined above, proof positive that the whole arrangement is but a gambling proposition, and the part payment merely my stake on the wager?

Property Purchased

Property is in many forms: Merchandise, household goods, jewelry, real estate, and stocks and bonds being the best known of those forms. All forms of property are sometimes sold for "all cash,"

but the first three of these are also sold both to the retailer on credit and to the consumer on part payment (sales on credit and on part payment differing widely in their nature); the other two may be said to be never sold on credit.

Credit and Loans

Where goods are not sold "on credit," they can be paid for in full either with the cash of the purchaser or through the medium of loans. The amount loaned and the interest charged vary according to the property.*

Loans

On wearing apparel, jewelry, and the like, loans are made for indeterminate periods, of but small proportion to actual worth, and at very high rates of interest. On household chattels, the loan is usually for a short, fixed period on a low valuation of the property, and at a high rate of interest; loans on real estate are for a longer fixed period, at a fair rate of interest, and on a medium valuation; loans on stocks and bonds are at a low rate of interest, for a very short period—all with the goods as security. Commercial loans are for short periods, at a good rate of interest, with no deposited security.†

Stocks on Credit

Stocks are never sold on credit; they are paid for in full, at the time of delivery, and are the property of the buyer. Where the buyer has insufficient means to pay in full, the balance is

*The attention of the reader is directed to the remarks on "The Value of Credit" and "Credit in Business," found in the chapter on "Business and Speculation."

†A bank, lending to a merchant, must wait at least 30 days for return of its money—meanwhile having no security and must sue for the amount loaned if the note is not paid; if lending to a stock broker, the loan is repayable on demand, security is always on hand, and a law suit, for collection, never necessary.

borrowed on the stock as security, and the seller receives the full amount for which he sold. As stocks are at once transferable, and easily made away with, possession of stocks so bought *is retained by the broker;* they are usually transferred into the name of the broker, but the transfer charges are at the cost of the buyer. They are, however, *the property of the buyer.*

Stocks on Margin

Often the buyer pays down an amount less than the difference between the value of the stock and what the lender will lend. In such a case, the broker provides that difference. For instance, on a stock costing $100 per share on which the customer has paid down $10 per share, and on which the banker will lend only $80 per share, the broker must supply the other $10, so that the shares will be paid for in full, when received. The banker takes possession of the shares as security for the $80 per share which he advances, and the broker has no security for the $10 per share advanced by him, except: First, the honesty and credit of the customer; and, Second, a reversion in the value of the stock itself—the banker holding a sort of first mortgage on the stock, and the broker a sort of second mortgage.

Real Estate

Purchases of real estate on part payment are the nearest approach to a margin purchase of stock. A part payment is required, the balance is borrowed, and paid to the seller, with the property as security to the lender; but as real estate is not easily made away with, the buyer takes possession.

Stocks and Real Estate* Loans on stocks and on real estate are on their appraised value; the value of stock varies almost constantly—and this change is reflected by the ticker; the borrowable proportion is high; the value is almost immediately realizable, therefore the borrowable amount also varies. The value of real estate is also constantly changing, but there is no way of showing such change; and as real estate is seldom easily salable, a lower amount is loaned for a fixed time. On stocks, 80% is usually borrowable; on real estate about 65%. Real estate values suffer from depreciation by fire, flood, wear and tear, pestilence, change in character of neighborhood, lack of demand, necessities of the seller, and the like. Stock values are similarly affected.†

Furniture, etc., on Instalments Household goods and the like, so bought, are really not bought on credit—*are not bought at all, but rented.* Ownership remains in the lessor (the so-called seller) until all the rental payments are made, whereupon the article becomes the property of the buyer. During this time failure to pay a rental results in forfeiture of

*The difference between dealing in real estate and dealing in securities is illustrated by the difference in land and water—one is solid and the other liquid, one is steady and the other fluctuates. The changes in the value of real estate are gradual and external, while differences in the value of securities are constantly going on from internal as well as external causes, just as the ocean is continually in motion, with waves and tides, due to its liquid state and the winds and storms that sweep over it. The daily ups and downs of the market in securities are like the waves, while the longer sweeps of market conditions correspond to tides. To navigate the seas is more dangerous than to travel on land, and one who would sail the ocean or deal in securities must have, on the one hand, a large and strong ship instead of a row-boat or a canoe; and, on the other hand, plenty of capital and backing and a thorough knowledge of securities and of the currents and winds of finance. Those with small boats or little capital should stay near shore.—J. G. Smith.

†The lender on real estate has 35% margin, but must wait from three to five years for repayment; the lender on stocks or bonds has 20% margin and can demand repayment any day. Which seems the safer?

all previous payments and loss of the property. Such purchases rarely are chargeable with interest.

Worth and Selling Price

The amount borrowable on stocks, therefore, is based on their market value, and as that market value changes the amount loaned is reduced or increased. The market value is seldom the actual value. Intrinsic value and market price are different matters. Take, for instance, a simple form of illustration—money. Money is of two kinds, coin and paper. A gold coin has approximately the same market and actual value, a $10 gold-piece being worth in gold, say $9.80; but the intrinsic value of a silver coin is only about half its market value, and that of paper money practically *nil*. A house may have cost $10,000 and be earning 6% net, and represent $10,000 in actual value, yet be salable at but $8,000. Demand makes the price—and borrowable value is based on current price. So with stock.

Buying on Borrowed Means*

The merchant with a capital of $10,000, buying for cash, can carry a stock of only $10,000, to sell say for $15,000; if he turns his stock over in a year, at an expense of $5,000, he has worked the year for nothing. But, with a credit of $10,000, he can carry a stock of $20,000; if he turns this over on the same basis of profit and expense, he will take in $30,000, can

*Complain of the Dating Evil.—Complaint is heard in local business circles of the extent to which the dating evil has grown. According to a prominent member of the lace trade, it is now a common thing for a buyer to demand sixty days dating in addition to the usual 2 per cent. discount at the end of ten days. Buyers are getting this dating in practically every case it is asked, he asserted, thereby being enabled to do business for seventy days on the capital of the seller. Not only are most of the wholesalers accused of granting this dating, but some of them are said to use it as bait to swing trade their way.—*The New York Times*, May 6, 1913.

pay back the borrowed $10,000, pay his expense of $5,000 and have his original $10,000 plus $5,000 clear; with a credit of $20,000, on the same basis, he will clear $15,000. Actually, of course, the expense of turn-over will have increased, but not in proportion to his turn-over; so that his profit will be under that stated. As a matter of fact, the merchant who buys on credit, pays *no* cash, at the time of purchase. Purchases of stock, however, as has been shown, are paid for in full when received, even though the money for payment has to be borrowed for the purpose.

Morality of Such Buying

As to the moral nature of purchasing stocks upon borrowed capital, it would seem—If the selection is wise, the history of the stock good, if the present price seems low, if the loaning rate for money is not high, and perhaps not above or even under the rate of dividend earned by the stock, stock bought on large margin (part payment), with a reserve, is just as moral, and just as sound from a business standpoint, as if a less amount were bought and paid for in full—and, of course, the profit is correspondingly larger. In margin trading, reserve is a prime requisite.

Stock Loans

As a stock must be paid for in full at time of purchase, a purchase on part payment or margin therefore necessitates a loan, and the newly-purchased stock is given as security. The broker goes to a lender of money to procure the balance of needed cash; the lender knows that the market value of the stock behind his loan is liable to change at any moment, and that the risk he, the lender, is taking

of getting back what he has loaned may be thereby increased, so he requires protection against that risk. He says, in effect, to the borrowing broker:

Loan Agreement

"I am ready to lend you 80% of the market value of this stock, but no more; when that value changes, I will call for more stock as security, or for a reduction of the loan; if you do not put up more collateral, or reduce the loan, I will sell out the stock to get back what I am lending you." Of course, the lender will not lend 80% on an unknown, inactive stock. When the market falls, the banker asks the broker for more collateral or more cash; and the broker asks his customer, who is expected to at once send in either more stock or more money. If money is sent in, it is two things—both a further payment on account of the purchase price, and a repayment on account of the amount borrowed; it is *never anything else.* If the customer does not send in either stock or cash to his broker, the broker is none the less required to send them in to the banker, as demanded; and the refusal or neglect of customers to meet these calls has sometimes resulted in the insolvency of the broker.

Margin Calls

Necessity For Margin Calls

Margin calls, therefore, really originate with the lender—the banker. He, however, is the trustee for his depositors; it is necessary that the banker shall have a large proportion of his assets in loans on stocks, readily salable and realizable upon—and to protect himself when he loans on stocks he requires from the broker

an agreement that he may demand additional collateral, a reduction of the loan, or the right to at once sell out the pledged stocks. The broker therefore requires a margin agreement from his customer. The forms of such agreements are found in the Appendix hereto.

Real Estate Bought With Borrowed Funds

Much real estate is bought on borrowed money; if on a $10,000 property 65% is borrowed on first mortgage at 5%, and $2,500 on second mortgage, at 6%, leaving $1,000 to be paid in cash, and the property nets 6%, the purchaser will pay $475 in interest, and have $125 clear, or 12½% on his investment. And a profit of $500, from the sale of such a property, if bought on *no borrowed money* will be a profit of 5% on the $10,000 of the owner's money invested, while *on borrowed money* it will be a profit of 50% on the $1,000 paid down by the owner—ten times as much on borrowed capital as on owned capital.

Stocks Bought With Borrowed Funds

So also with stocks bought on borrowed money. If 90% is borrowed at 5% on a stock paying 6%, the holder is making 15% on his investment; and a profit of say $100 on the sale of such a stock if no money is borrowed is but 1%, while on borrowed money it is 10%.

Forbidding Margin Trading

Those unacquainted with the fact that a margin is a part payment on account, thinking it is a deposit merely to protect against loss, have suggested prohibiting margin trading. But "speculation on margin is nothing more than

speculation on borrowed means, and even if the practice of buying on margin were not allowed, the same thing could be accomplished by borrowing money and purchasing outright."* Margin buying *is* "borrowing money and purchasing outright." All stock transactions are outright purchases.

Buying Through Your Bank

Many banks will unhesitatingly order a stock for you, and carry it on its usual terms—that is, you pay down the difference between what your stock is appraised at for loaning purposes and the purchase price, and sign the usual collateral loan note and pay the usual interest. This is just what your broker does when you make a margin purchase through him; in the one case you deal directly with the bank—in the other, he deals with the bank for you.

More Margin

The usual margin required is 10%—"kept good"—that is, when the price goes down a further payment may be called. The suggestion has been frequently advanced that a greater amount of original margin be required by law. If the larger margin must be "kept good," further payments must be made should the market value decline. The bank usually loans 80%; if 20% original margin were generally required the broker would not be called on to lend any of the money; the bank would be in exactly the same position with a 20-point original margin as it is when the broker is lending 10 points of the purchase price. In both cases it is secured by $20 per share and in cases of market decline its demands

*Should Speculation be Regulated by Law?—H. C. Emery.

for additional security in collaterals or for repayment of part of loan, would be unaltered.*

As a comparison, it can here be pointed out that the customary original partial payment on household goods and the like, is $1 on account of a purchase of $100 (1% only.)

"Wiped Out" When a customer fails to produce additional collateral (in stocks or money) towards his loan, as required by the bank and broker, his stocks may be sold out. Such a sale may be necessary in order to protect those who loaned against the stock, as security. If the sale were not made, the price of the stock might continue to decline to a point where a loss would fall on the lenders; and, of course, they should not be forced into any such position. If the stocks do not bring enough to pay the amount borrowed, the customer is "wiped out"; but the amount of margin paid in is not the limit of the customer's possible loss. Any further loss is a charge against the customer, just as a loss on a foreclosed mortgage is chargeable against the giver of the mortgage.

Sufficient Reserve The responsibility for the loss is the customer's. It is the urgent duty of every purchaser on margin to keep available a sufficient reserve, either in collaterals, or in cash. With such reserve he can meet margin calls and prevent being "wiped out." If his resources are originally small he should make a small investment (he can begin with one share of stock), keeping his reserve available, always

*Large original margin protects the broker; it obviates the use of his capital in carrying the customer's commitments and lessens his, the broker's risks. The broker should demand, and the Exchange requires, ample margin; however, margin should be a matter of arrangement, not of legal compulsion. (See also footnote on page 54.)

ready to protect his purchase. On proper purchases with sufficient reserve the prospect of loss is minimized.

Lack of Reserve

The reserve of the customer can either be in his own hands or that of his broker. If the customer would buy, only in such amounts, and only of such stocks as will leave him a sufficient reserve, all troubles from margin calls would be escaped. However, the desire to make a large profit is often very alluring—all business men meet it, and all salesmen take advantage of that desire. By offering extra discounts (and therefore hope of a larger profit) they often load up a merchant with more goods than the merchant has any business to try to carry. If sales are slow the merchant must sacrifice the goods, making a loss. The stock buyer may make the same error, be persuaded to "load up" or overbuy, and may be compelled to sell at a sacrifice and make a loss. Both the merchant and the stock buyer have it within their own power to prevent such loss by keeping within their resources.

Duty of Broker

It must be apparent that many a stock buyer who has selected a splendid stock would have made a profit had he been protected by a reserve. It must be apparent that the most the broker can do is to warn his customer against overbuying (or, what is the same thing, insufficient reserve). The broker cannot well refuse to take a proper order. The duty, however, is upon the broker to warn his customer against poor purchases and insufficient protection; and when this duty has been performed no blame should attach to him.

What is Margin

The nature of "margin" is misunderstood even by eminent lawyers, lexicographers and financial writers; and, of course, being misunderstood by these, a very wide misunderstanding of the word has resulted. It has been variously described as "security" (Goldman); as a "deposit" "equal to the sum which may be lost" (Hamon); as "provision against loss" (Century Dictionary); as the "customer's equity" (Campbell); and many of the standard works on finance or stock law attempt no definition whatever.

Margin is a Part Payment

The law has clearly decided what "margin" is. It is "payment on account of a purchase," and conveys ownership, with its privileges and duties. Additional margin is a further payment on account, and is also the return of part of the money borrowed to effect entire payment at purchase. Margin is never "security", never a "deposit," never an "equity," never the "sum which may be lost." "Security" is something pledged and *the security* is not the purchase money but the *stock* bought with that money. A "deposit" (in a bank) is something which may be withdrawn; a "deposit on account" is a payment on account, and, of course not withdrawable; and "equity" is "what remains after a property is disposed of."* An equity is not the money paid in when a trade is begun, but is the money which remains after the trade is closed; the margin may be exhausted, and no equity remain. And margin paid in is not the "sum which may be

*Century Dictionary.

lost;" the buyer's loss is not limited to the money he as risked.

Margin Purchaser is Actual Owner

Of course, this may all be said to be technical, but it is necessary if we are to arrive at fact. The deposit of margin is a part payment of the purchase money. As soon as a customer's order is carried out, the stock is the property of the customer; he is its sole owner, and his ownership can be disturbed only in accordance with duly recognized, lawful and legal proceedings. He is as much its owner, and his title in it is as secure as if he had applied the same amount to, had given a mortgage on, and had taken title in, a piece of real estate. A stock certificate is property, as much as real estate is, and all benefits from a property belong to its owner. Thus, the new stock owner can sell his property at his pleasure; receives dividends or rents earned by it; is chargeable with interest on borrowed amounts, with depreciation, taxes, etc.; and when sold, receives the profit, or stands the loss, as the case may be.

Margin Buying not Gambling

"Margin" is never a stake on a bet or gamble as to the price of a stock, even if the depositor of the margin is willing to risk the amount on a purchase. The nature of betting and gambling are discussed elsewhere; and the conclusion must be that buying a stock and betting on a stock are as different as buying a horse and betting on a horse—as widely different as any two transactions can be—not only in a business sense, but also in a moral and in a legal sense. Buying

stock is not different from buying any other kind of property. Men risk their money in all kinds of purchases—sometimes wisely, sometimes foolishly; buying, however foolish or reckless, never is and never can be betting or gambling.

Conclusion

We have therefore seen that stocks are property; that all forms of property are bought on partial payment; that the property is in many cases given to the lender as security for the loan; that the interest return and profit are very much greater proportionately when property is bought on borrowed money than when paid for entirely out of the means of the buyer. We have seen that general mercantile business is based on purchases on which *no cash at all* is paid at time of purchase; that no greater risk is run when property is bought on a proper and safe part-payment basis than when bought for all cash; and that the risk depends on the good judgment of the buyer in making a proper purchase and in keeping a proper reserve. So that margin purchases, under such conditions, are not to be deprecated, but on the contrary might even be encouraged, within proper bounds.

PARTNERSHIPS AND CORPORATIONS.

"Corporations existed in Rome. But the limited liability stock corporation is a modern discovery, and in connection with steam and electricity, it constitutes a trinity of inventions which have revolutionized the business of the world."—Work of Wall Street.

Mutual Help

A partnership is the embodiment of the communal law in small compass, the carrying out of the socialistic idea among a few—mutual help and sharing of outcome. For a man with a burden too heavy for him to bear alone, some one to help carry it; or with a task requiring more capital than he alone possesses, some one to help supply it, the pay or profit to be shared. The corporation is an extension of the idea of partnership, of communism. Where a burden is too heavy for several men to bear, the many are called in. Where the supply of capital of several is insufficient, the multitude are called in, sharing the pay or profits, according to the work performed.

Reward Based on Amount of Participation

It is one of the ironies of fate that the corporation, which is a manifestation of communism, should be among the most hated of human devices by so-called socialists. In the original Christian community, all were equal partners, but the impracticability of this arrangement soon became apparent and the rule was laid down that "if a man do not work let him not eat." The doctrine laid down in the parable of the talents was that the man who had

done much received a greater reward than he who had done little. This is the doctrine of the partnership and of the corporation; according to participation is the reward.

Large Business Enterprises

It is manifest that a partnership is designed for limited business only. To effect the building of railroads, steamships, or large industries of any kind, and secure the necessary capital*, the co-operation of numbers of persons is requisite.

Risks Compared

In partnerships many risks occur which are absent in corporations. For instance, the greatest risk in a partnership is that of liability. If the partnership is unsuccessful the partners' private fortunes must be sacrificed to meet the debts of the firm. In the ordinary limited-liability corporation, in case of total failure, the owner of stock loses only the money put into the stock.

Continuity of Business

A partnership lasts only for a given term of years—the death of a partner may terminate it—while the life of a corporation is continuous, and a change in the personnel does not affect its life. If a partner retires, a new arrangement for division of responsibility and of profit must be made; not so in the corporation. In the usual partnership, each

*The development of the resources of this country has been largely the work of the corporation. Little needs to be said in illustration of so familiar a fact. The construction of great railroads and the building up of vast industrial undertakings, depend upon contributions of capital from a wide public. The individual capital of a small group of organizers is no longer adequate for the great enterprises which they carry on. The savings of the whole country have first to be collected into various organizations and then employed under the management of the few. This is effected by transferable bonds and shares of stock, which in this way have come to be a very common form of investment.—Emery.

partner has the same legal standing, with practically the same voice in management; while in the corporation, while each shareholder has a voice, that voice is according to his money risk. The large holders control; but small holders often have combined to secure control of a corporation. There has even arisen a class of lawyers who encourage such combinations. In a partnership, any partner may ask the legal dissolution of the firm, and even ask for the appointment of a receiver of a solvent business; but this is an almost impossible thing to do in a corporation—the law prescribes exactly the manner of dissolution.

Comparison of Benefits

In the partnership, the partner of small interest may by the agreement be excluded from any part in the management; but the holder of a single share of stock in a corporation has his right. A person of ordinary means would be unable to buy into most partnerships, and certainly a person of no knowledge of the business would generally be unwelcome as a partner; but one of the smallest means, and of no knowledge of a corporation's business may be a stockholder. In a partnership the sale of interest by a partner, say, by reason of ill-health or age, may be prevented by the others, or they might refuse to give a fair value for his interest. The withdrawal of capital or the admission of another person might be objected to. One great advantage of a corporation is that its shares may be usually disposed of at the fair market value and the new holder has all the rights of the former holder. It is therefore not remarkable that men of thought are more and more preferring corporate to partnership forms for doing business.

Limited Liability

The law, however, allows a person to become a partner, and at the same time be responsible for only a part of the debts of the partnership. Such a partner is called a special partner—he puts in a sum as special capital, advertises the fact, and if the firm should fail, his loss is no more than his special capital.* The stockholder in a corporation is practically a special partner. His risk, in all but certain companies, such as banks and the like, is limited to his stockholding, and he can lose no more than the amount he has paid for his stock; whereas the ordinary partner's whole wealth is at the risk of the business. Stockholders should exercise care to see that they are not buying into unlimited liability companies.

Buying a Partnership

In buying a stock, the speculator is actually buying a share in a business. Is the management honest? Is it capable? Is the business sound? Is it paying? If it is not paying well, are the prospects good? Is the price a proper one? These questions are usually ascertainable as to a corporation, but difficult of answer as to a partnership.

Taking a Partner

Where a man is offered the opportunity to become a partner in some concern, if he be a wise man he will examine into its business, its past history, its present condition, its future prospects, and into the personal qualifications and character of his intended partners. The buyer of a share of stock

*Where a special partner takes an active interest in the affairs of the firm, he may become involved in such a manner as to be considered a general partner.

in a corporation is practically buying a partnership in the concern; and he should exercise the same interest in the history and prospects of his company (for it *is* his company) and into *his* officers (for they are his officers), as he would were the enterprise a partnership instead of a corporation. The mere fact that in one his liability is limited and in the other is unlimited, should not operate to lessen his business caution—his money is being risked. The application of business caution to the buying of stocks will do more than any other one thing to obviate losses from speculation in disastrous concerns.

Bill-of-Sale Where property is passed from one person to another, it is customary to require a bill-of-sale—a form of receipt showing that the former owner has passed title to another. In cases of property of large value, such bills-of-sale are recorded in Court-houses, and become public notice of such change of ownership. The stock certificate received by a stockholder is, in effect, such a bill-of-sale; and record of the new ownership may be made at the office of the company, under due provisions of the law. As stated elsewhere, stock certificates are in themselves property, besides, being evidences of ownership in the company; and they should, by all means, be recorded. Where companies are not paying dividends, holders sometimes fail to transfer certificates to their own names, but allow them, for the sake of saving transfer fees and other reasons, to remain in the names of former owners. Such a practice is often unsafe. Allowing a certificate to remain around, endorsed by its former owner, may, in case of loss or theft, cause the present owner

a great deal of trouble, entirely incommensurate with the small transfer taxes saved. "Safety first," is a good motto.

Certificates of Participation

There is no moral difference between a partnership which owns a plot of ground, a factory, a railroad, or a house, and the same group of men owning the shares in a corporation which owns the property. The agreement in the one case is signed, sealed, witnessed, and often recorded in a place of legal record; in the other case it follows all these forms. The ownership in the first case would be subject to grave business and legal difficulties which are escaped in the second case.

Results of Dishonest Management

Corporate managers, however, are sometimes charged with selfish interest and with mismanagement; but many firms have been ruined by being run in the self-interest of one partner, or by his dishonesty. In either firm or corporation, neglect of duty by managers is chargeable to some extent to the other partners or shareholders who are equally interested in the concern.* But in the corporation, though it may be wrecked, it does not necessarily wreck the fortune of the participants; while in a wrecked partnership, this is bound to be the case.

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*A stockholder should never hesitate to write to the officers of his company, for information. He should do it often, and should get other stockholders to do the same thing. One stockholder writing frequently may be considered a nuisance, ten will be treated with respect; and it will be a very autocratic control which will deny information to 100 stockholders, taking a legitimate step to protect their own proper interests.—*Wall Street Journal*, September 22, 1909.

Recreant Management

Corporate managers have been charged with so operating a company as to "rig" the stock market* in the shares of the company. Here, again, failure to correct neglect of duty is chargeable to some extent upon the stockholders. Unfaithful directors may be punished by law† and by exclusion from the management, and by-laws may be enacted compelling frequent information regarding the operations of the company. The tendency to-day is toward full and frequent reports, and what has been done in this respect in some companies is possible in others.

Ease of Securing Participation

The possibility of buying into successful companies by persons of small means makes stock ownership attractive; the possibility of easy retirement from such companies is also attractive. The number of stockholders in corporations, by reason of these and other advantages, has recently increased by leaps and bounds. The purchase of stock in corporations with good records seems therefore a conservative form of investment. Many persons are unfitted by education and business training for participation in a partnership; such

*"The value of a security, on the other hand, depends largely upon the policy of a group of directors. If they wish to speculate in the shares of their own companies, they are in a position of extraordinary advantage. By means of one line of policy or another, combined with the use of false information to the public, they may move the price to suit their private purposes."—H. C. Emery, Duties of Brokers.

†It may be pointed out here that, in New York State, Directors may not sell "short" the stocks of their corporation—*i. e.*, seek to depress the price of its shares by sales of shares which they do not own themselves or have borrowed for the purpose. This is because of the moral duty a Director owes to all his shareholders, and not because of anything in the nature of short selling, which is permitted under the laws of New York; and losses by gross mismanagement may be recoverable from Directors.

persons, however, can buy into a corporation which conducts a safe and paying business, becoming interested in affairs larger than they could otherwise, and be better citizens because of such interest and the education obtained from such participation.

Value of Interest Easy to Arrive at

In a partnership, such profits as are made, are usually determined at the close of the partnership year and are then divided; in a corporation, they are usually determined and paid at the end of each three months. Where profits are quickly determinable, the value of an interest in a corporation quickly changes. Where dividends are declared at frequent intervals, a stock is at a higher price just before a dividend is likely to be declared. Thus, in a corporation it is often possible to arrive at a day-by-day value of an interest, but in a partnership that value must await an inventory date.

Fluctuations

This changing value is a prime cause of market fluctuations. Of course, pressure to sell or to buy is a prime cause; impending bad seasons, or possibility of good seasons, rumors of disasters, wars, tariff changes and the like; accidents, failures of customers—all affect the market price—but in long-established and steady-paying companies such effects are usually not lasting.

Failures

It has been shown* that business combinations of good size are less liable to business failure than smaller concerns. The percentage of corporations which fail is smaller than that of partnerships.

*Page 33, "Lack of Credit."

Nature of Business Done Not Changed

It must, of course, be evident that there is no essential difference between the moral nature of a business, (for instance, a grocery business) done by a partnership, and the same kind of business done by a corporation, if in both cases the same goods are handled, on the same business principles. Every sort of business is done by both corporations and partnerships, except perhaps railroads and other large concerns requiring vast capital, and, necessarily, participation by a large number of persons.

Conclusions

It would seem clear that both partnerships and corporations are based on a sound moral principle—that of mutual help, with proportionate share of burden and profit, but that large business enterprises are impossible without corporations; that ordinary persons can, through stock ownership, be interested in enterprises in which they could never hope to procure a partnership; that dealing in such a participation is both moral and legal; that stock-holders, really control a corporation as much as they could a partnership; that corporations are as much subject to law as a partnership would be; and that there is no more basis for dislike or distrust of a corporation than would obtain with a partnership.

1000 1000

UNITED STATES OF AMERICA

JOHN DOE & COMPANY

MORTGAGE BOND

John Doe & Company (hereinafter called the Company) a corporation of the State of ________, for value received hereby promises to pay to ________ or registered assigns, on the first day of ________ One thousand nine hundred and ________, at the office or agency of the Company in the Borough of Manhattan, City of New York, State of N. Y. the sum of ——— ONE THOUSAND DOLLARS ——— in gold coin of the United States of America, of or equal to the standard of weight and fineness as it existed on the ____ day of ________, 191____, and to pay interest thereon from the first day of ________ at the rate of ____ per cent per annum to the registered holder hereof at such office or agency in like gold coin ________ annually on the ________ day of ________, and the first day of ________ in each year (here might be inserted statement as to such principal and interest being paid without deduction for any taxes of whatever sort as provided in the indenture.)

(Here should follow such extracts from the Mortgage Indenture as may be considered by the Committee on Stock List to fully set out the conditions of the indenture.)

LIEN (and collateral).
SINKING FUND
REDEMPTION
DEFAULT
CONVERTIBILITY

REFUNDING
INTERCHANGEABILITY
CORPORATE OBLIGATION
VALIDATION
ATTESTATION

John Doe & Company

Attest:

By

FORM FOR BOND

BROKER AND CUSTOMER

The following remarks are intended only as a general statement as to the relations of broker and customer, and not as legal authority. Where either broker or customer has any doubt as to his position or his rights, his duty is to consult his attorney or the authorities of the Exchange.

Their Legal Relations

The relation of the broker to the customer on a margin transaction is varied. He acts, in a legal sense, first, as an agent to buy (or to sell) the stock; second, he is called upon to borrow part of the purchase money; third, he is a creditor of the customer, often without any security. As such agent, he is legally bound to buy (and to borrow) to the customer's best interest, to give certain notices, and to protect his customer in certain legal ways. He is entitled to charge his customer at least what interest costs, and may add a reasonable commission or handling charge.

Their Moral Relations

From the Exchange standpoint, the broker is required to do more than his legal duty. He must not only obey the law but also the rules of the Exchange. These rules impose obligations of a varied nature, the scope of which will be found later herein.* He should see that a customer does not overbuy; should influence him against unknown or too-well-known stocks; should not take

*See chapters on "The Association," "The Place of Business," "The Business Done," and "The Exchange as a Moral Force."

an opposite position to that recommended to his customer; should not act in a discretionary manner, in the account of his customer, nor permit his clerks to do so—although, should a clerk have authority as attorney of a customer, the broker must respect such authority, and the customer is bound thereby. The position of the high-grade broker is difficult—he is required by law to carry out his customer's lawful instructions, yet may feel they should not be carried out; if he advise his customer, the latter may later upbraid him, and if he does not advise him, he may equally be censured.

Rules for Benefit of Customer

The law and the rules of the Exchange have been largely made for the benefit of the customer—the broker is expected to take care of his interests. A broker has as much at risk on most margined transactions as the average customer. If the broker makes a mistake, it is at his own cost; if he fails to make a transaction which could have been made at the price, he is liable to damages; but if he makes it at a better price, the customer gets the advantage of that better price.

Broker not the Seller or Buyer

Many customers assume the broker who has their order to buy a stock has sold the stock to them; such is not the fact. He has bought a stock *for* them, not sold it *to* them. Just as a real estate broker buys a plot of ground for a client from a third party, so the stock broker has bought the stock of a third party, or usually a fourth party, the selling broker in most cases representing another seller.

Borrowing by the Broker

On a margin transaction, the broker is called upon to borrow or lend the difference between cost and margin. He usually borrows the larger part of the deficiency, and lends the balance. For the borrowed money, he pledges the newly-bought stock and gives his own note or collateral loan agreement (see Appendix). The lender looks to and holds him for the loaned amount; the lender notifies him when more security is required, and the broker notifies the buyer. The broker can legally claim a commission of fifty cents per $100 for the amount borrowed, but rarely does so. For the amount he personally loans, the broker has no security, except the good faith of the customer, and whatever excess above the amount borrowed from the bank, the stocks, if sold, may show. It is therefore to the advantage of the broker to have as customers those amply able to care for their commitments. In a rapidly declining market, the risk placed upon the broker is often very severe.

Brokers' Guaranty

While the law places no responsibility upon the broker as to guaranteeing a purchase for a customer, the Exchange rules do. Stolen, forged, unauthorized, stocks, must be made good by the broker of whom they were bought.

In Broker's Name

Stocks bought on margin may be placed in the broker's name, for his convenience in borrowing, and for collecting dividends, and the customer must pay the transfer taxes, when he thereafter desires the stock in his name.

False Statements

A false statement, orally or by advertisement, as to the value of a stock or as to facts relating to it, or a false report of a transaction by a broker, for account of a client, is a felony.

Missing the Market

The broker should not sell direct to the customer without the express consent of the latter and cannot, in such case, charge a commission. The consent of the customer is not always implied, if he take no notice of a report showing the facts. Where the broker supplies a stock, through missing his market, he should report the exact facts. He should make an actual transaction with another broker, report the transaction as it occurred, credit the customer with the difference between that price and the price at which the order might have been executed, and then charge a commission.

Insolvency

The fact that failures upon the Exchange are less frequent than in any other business is pointed out elsewhere.* The law holds that a broker is insolvent when his property is of less value than his debts. The Exchange rule is more severe—a broker is insolvent when he cannot meet his engagements; his assets may much exceed his liabilities, but be unmarketable, and he be unable to pay a customer on demand, and he is thereby declared insolvent. An interesting case is one occurring in 1907: A broker whom the Exchange declared insolvent fought the matter through the courts for six years, before the courts decided that he was insolvent at the time the Exchange announced the fact. Had

*Page 51

it not been for the Exchange rule, he could have continued to carry on business in the interim.

Proper Accounts

A broker must keep proper books of account. State laws and United States laws require full accounts, showing facts as to a transaction in great detail. The Exchange authorities have power to immediately examine the books of a member; its rules make members responsible for accounts in fictitious names. Where a broker is told that an account is not that of the person in whose name it stands, he is on notice, and must act with great care with respect to such account.

Broker an Agent—His Duties

The broker who buys or sells securities on orders of a customer is the agent of the customer, and the law of agency applies, whether they are paid for in full or only in part, and whether they are sold from stock in hand, or to be borrowed for delivery. The broker must honestly, intelligently, carefully, explicitly, properly and promptly carry out the orders given. He should be sure to understand the order, must carry it out in accordance with its exact terms at the earliest possible moment and to the best possible advantage of the customer, and must be ready to account in full for the application of the money deposited and for the securities purchased.

Inability to Carry Out Order

Where the broker finds it impossible to carry out his customer's order or misunderstands it, he should, at once, without loss of time, inform the customer of the facts. Neglect may cause loss to the broker. It has been held

that a broker may legally refuse to sell a stock and replace it with one he thinks less safe; but the proper plan is to advise with his customer, and follow orders, if proper and properly margined.

The Order

Brokerage offices differ in the treatment of a customer's order; some consider an order, given by a customer in the office, unless modified by some descriptive term, as "good only for the day"—that is, if the stock be not bought or sold, as ordered, on that day, the order is to be cancelled. Yet an order received by mail, is considered as "good till countermanded" or as called "g. t. c."—that is, remains in force until the order is carried into effect, no matter how long a time is taken. Others consider that an order, once given, remains in effect until filled, or cancelled. It would seem desirable that there be a general rule on this subject. However, in order to prevent mistake, each office should give to its customers some form of notice setting forth how orders are looked upon in that particular office. By so doing, much unnecessary friction will be avoided.

Customer's Agreement

The lender of a customer's stock, to to another broker receives 100% of its market value from the borrower; and is most likely therefore lending the stock for more than the amount due on that stock, by the customer. The law forbids the broker to borrow more on a customer's stock than the amount yet due, unless the customer gives his assent; all questions of this or other legal character are obviated by the usual form of "customer's consent" taken by brokerage houses. (See Appendix.)

Margin Agreement*

The broker should require his customer to sign the usual form of margin agreement; without such an agreement, the broker may, with certain kinds of customers, find himself embarrassed as to borrowing money, requiring margin, and protecting himself in case stocks must be sold.

Agreement to Carry Stock

It is sometimes alleged by a customer that his broker has agreed with him to carry stocks for a given time, and perhaps at a given interest rate; brokers are not permitted, by Exchange rules, to make a fixed rate of interest and are also required to have "adequate margin," so that the probability of such an agreement is slight. Courts will require clear proof of such an agreement.

Broker's Interest in a Purchase

Where securities are bought on a margin less than the amount which a bank will loan, the broker is called on to risk some of his own capital. Where the margin is 10%, and the bank lends 80%, the broker must himself advance 10%. He must use the stock for borrowing purposes and has made himself liable to the bank for any loss. He rarely can make a loan on an individual purchase, and therefore must mingle one customer's stocks with those of one or more purchasers. In the absence of a proper agreement, he may find himself guilty of a technical violation of the law, which might be taken advantage of by an unprincipled customer.

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*See form in Appendix.

Difficulties Avoided

By such an agreement, he avoids such questions as technical conversion, because of momentarily borrowing more than the customer owes; as to necessity of giving "reasonable notice" (a term not yet fully legally defined), as to when and how he can sell a stock, in order to protect himself and the bank, where a customer fails to provide further margin.

Claims for Purchase or Sale

The broker is often met with a claim from a customer that because a sale occurred at the price at which the customer's order was in, the broker must therefore supply the stock (if the order was to buy) or take the stock (i' the order was to sell). This is often a most unfair attitude. It will be readily seen that with business coming from "all parts of the civilized world," it is very seldom that the order of that particular customer is the only order in the market; besides it does not follow that because the stock sold at a price that all the stock which was in the market could have been sold at the same price. With orders to sell, aggregating 2000 shares, and orders to buy aggregating say only 1000 shares, it must be evident that 1000 shares could not have been sold. Where a customer insists upon claiming such a sale, the broker must not take the stock from his customer, unless the broker was clearly negligent in failing to sell at the price. A broker who allows the claim of his customer when the customer is not entitled to the claim, is breaking the laws of the Exchange.

Actual Certificate

The law does not require the broker to deliver or have in hand the actual certificate purchased, but he must have in hand or under his control a certificate for the amount and of the identical kind purchased. A certificate is a "share," and any share of like amount and kind is equally a "share."

Short Selling

The law is not identical as to securities bought on margin and those sold short on margin. In selling short, the broker is presumed to agree to provide the certificate for delivery, and to give the customer a reasonable time to cover it; but this presumption is waived by the customer, on signing the proper margin agreement.

Closing an Account

Many customers do not know that the broker is not bound, on a margin purchase, to continue to carry an account, so long as margin is good. Margin is not the only consideration, in buying stock. The character of the customer may be a vital factor; general market conditions, is another factor; the kind of stock is another; the desire of the broker to reduce his liability to his bank is another. The broker can require the customer to take up, and pay for, or transfer to some other broker who will take up and pay for, an account at any time on reasonable notice.

Margin Limit

The broker is not required to carry a stock until all the margin is exhausted. His agreement should provide as to a margin below which he will not go. But should he go below that limit,

he assumes no liability for not having sooner sold out the stock.

Where an Account may be Closed Out

The law requires that stocks be closed out at some public place, and this was held to be at an auction room or in a curb market. Latterly, however, the courts have ruled that the Exchange is a public market, and stocks closed out on the Exchange, in accordance with the margin agreement and the rules of the Exchange, are properly closed out.

Customer's Liability

The liability of the customer is not fixed by his margin. Margin is a part payment on account, just as with a real-estate transaction. If real estate were foreclosed under a mortgage, any loss to the money lender would be a valid claim against the borrower. Such a claim is reduced to a "deficiency judgment" which is recoverable upon; and any deficiency on a closed-out margin transaction is similar in nature.

Cash or Securities

Margin may be in cash or in securities. Securities deposited as margin may be borrowed upon by the broker, and are then subject to the same conditions as apply to stocks purchased on cash margin. Where securities are used as margin, a market decline usually reduces the value of the margin, and thus exhausts the protection more quickly than with a cash margin.

Stop Orders* A source of some complaint arises from what is known as "stop orders." Such orders are intended to be carried out when the price named in them is reached—the customer hoping thereby to limit his loss to whatever it may be, at that price; but a stop order becomes a market order under certain conditions, and must at once be carried out, as though it had originally been a market order. In a bad market, the broker may not be able to execute a stop at the price, and thereupon continues to bid for it (if a purchase) or to offer it (if a sale), at such price as will bring about the purchase or sale. In such a case the loss of the customer may not be confined to the figure he had hoped. The law is clear as to the duty of the broker on this point. Some decisions have even held that the giving of a stop order on a margined transaction does not compel the broker to wait until the price named is reached.

Brokerage Customs The rule has been established in law by a number of cases, that where a customer employs a broker the broker is presumed to be authorized to deal in accordance with the customs of brokers and have implied authority to follow the rules and usages of the Exchange and of brokers generally. This authorization is part of the margin agreement† customarily required by brokers, and also forms

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*The rules of the Exchange as to stop orders are as follows:

That a stop order to buy stock becomes a market order when the stock sells at or above the stop price;

That a stop order to sell stock becomes a market order when the stock sells at or below the stop price.

That, in the opinion of the Committee of Arrangements, *all open buying orders* and *open stop orders to sell* should be reduced by the amount of a dividend on the day stock sells ex-dividend unless instructions to the contrary have been received.

†See form in Appendix.

part of the usual notice of purchase and sale sent to the customer when an order has been carried out. Any extra expense is at the cost of the customer.

> "Where a broker acts in accordance with the usages of the Stock Exchange or of his fellow-brokers all in good faith, he is entitled to full indemnification for any outlays or loss which may be incurred in the transaction of the business."*

Interest Charges

Interest rates are often the cause of question by clients, when the money rate is higher than ordinary. The broker is prohibited by the rules of the Exchange from supplying money at less than cost—and its *cost* is more than what he *borrows it at*, as he has expenses of various kinds which are part of his cost. The law of New York state permits more than a 6% rate where money is borrowed on collaterals in sums of $5,000 or over;† and it specifically authorizes a commission of ½% for procuring money.‡ No commission or extra interest however, can be charged, where he furnishes the required funds from his own capital; but "a bonafide charge by a banker or stock broker of a commission or extra sum for expense or trouble is not usurious."* Some brokers refuse to carry, when interest cost is above 6%, accounts whose debit is less than $5,000; but as to such accounts, other brokers add a commission, or carrying charge, in order to recoup their cost and expense.

A broker can not make a specific loan on every individual purchase of stock, especially if the purchase requires only a small amount of cash. Lenders would not be bothered, nor could the broker be

*Dos Passos on Stock Brokers and Stock Exchanges.

†Section 379 of General Business Law.

‡Section 380, Chapter 25, Laws of 1909.

bothered, with a large number of small loans—so he is compelled to bulk his borrowings; and for this reason he takes the usual customer's agreement, allowing him to congregate the stocks of all of his customers into one large loan. The consent of the customer to this borrowing in bulk, the fact that his business is being conducted under the rules of the Exchange, the fact that brokers have a uniform practice of so charging interest (which is known, or should be made known, to the customer), would seem to form an implied agreement as to interest charges.

> "In respect to the liability of a client to pay interest it is a well-understood rule of stock brokers to charge him *legal* interest upon the amount advanced by the broker in the purchase of the stock; it is also the usage of brokers to charge the client *an extra interest* which the broker is compelled to pay for carrying the stocks of the former caused by a stringency of the money market. Both of these usages are reasonable, and it does not seem to be difficult to sustain them by authorities."*

Assignment on a Certificate

Stock certificates are made out in the name of the owner, and in order to be transferred must be signed (assigned) by the owner, in the proper place on the reverse of the certificate, the owner writing in his name exactly as it is filled in, on the face of the certificate.† Much trouble is occasioned by failing to observe this simple rule; *titles* (but not including Mr., Messrs., or

*Dos Passos on Stock Brokers and Stock Exchanges.

†If a stock has been made out by the Company to a wrong name (such as a misspelling, wrong initials, etc.) the Company must correct the name on the face of the certificate, by writing in "Correct name is ____" and this statement must be signed by the transfer agent who certified to the name as originally filled in. Signing the name as wrongly filled in, then properly, only makes a certificate non-deliverable; and a guaranty by a broker that the names are one and the same person *will not cure this defect.*

Esq.) must be a part of the signature, identical with the face of certificate; as must also be "Brothers" or "Bros."; but a residence of business address need not be written in, and "And Co." or "& Company," may be written in any way. A pencil signature is not permissible.

Detached Assignments It is not absolutely necessary that a stock certificate shall be assigned upon its reverse; to undertake to send an assigned certificate through the mails, unless insured, might result in its loss. The sender, therefore, at times, resorts to a detached assignment," which is a separate paper, required to be executed before a notary and to explicitly describe the stock it refers to. This paper is sent through one mail, and the stock itself, unassigned, is sent under different enclosure—the loss of either would not be a money loss, as duplicates for lost, unassigned certificates can be issued under proper regulations. A detached assignment, properly made out and acknowledged, accompanying an unassigned deliverable certificate, *is good at any time.*

Date The date of the assignment or of any other writing or statement upon a certificate must be legible, and any correction properly noted by the assignor. No other person's correction of the date is valid. The correction of a date must read "Proper date of execution is . . . ." (here fill in the date.) which must be signed by the person in whose name the certificate stands. None other will do.

Women

A stock in the name of a woman (unless the word "Miss" is a part of the name on the face, and the certificate is so signed) must always carry a notary's acknowledgment, showing that the lady is single, married, or a widow, as the case may be; if married, the husband must also assign the certificate, and the notary so state in his acknowledgment. This rule is probably based on the fact that in many countries (and until quite recently in some of our States) all property of a wife belongs to her husband, and cannot be transferred without his consent.

Endorsed Bonds

Trouble is also caused by the writing of names upon coupon bonds. A coupon bond has usually a place in which the name of the owner may be written in, but this can be done *only by an officer of the company* which issued the bond; a name placed on a coupon bond by any other person makes it an "endorsed bond," which can be sold only as "endorsed," usually at a discount, because of the uncertainty of title arising from the writing. Such endorsements are commonly put upon a coupon bond to protect it in case of theft; but the owner would do much better to have the bond properly made out by the company, in the desired name.

Reports of Transactions

Where requested, brokers are required to report to customers within forty-eight hours after a transaction has occurred, the price, time, and other broker. Brokers should see that a report is sent to the customer, and that statements of account

are also sent. Many brokers require receipts for such statements. The failure to sign such a receipt does not release a customer from failure to promptly claim any mistake in such reports; on the other hand, failure to make such claim promptly, will not always release the broker, provided the claim is valid.

Death of a Customer

It is safest to get an order from the executor of the estate, where a customer dies; however, sales of stocks, for lack of margin, where such an order cannot be obtained, have been approved by courts.

Branch Offices

A firm which conducts branch offices is, by Exchange rules, responsible for the conduct of such offices. Employees at such offices are the agents of the broker, unless the customer, by some act of his own, makes the employee his agent for some purpose. A misappropriation by a branch office employee would therefore be apt to be at the risk of the broker.

MONEY, STOCKS AND BONDS

"It is the market place of the entire country and of foreign countries for securities, and the only market place in the United States where money is loaned and borrowed."

"Listing upon the Stock Exchange gives a security a wider market and a more definite current value, making it easier to sell and easier to borrow on."—House of Representatives Report, 1913.

Their Intimate Relation

Money, Stocks and Bonds are so alike in form, and are so closely interwoven into the basis of our business and banking fabric*, as to deserve consideration as one question. Cash money is now but little used, being almost a stranger; in all but most trifling payments, checks, drafts and bills of exchange have taken its place. In banks, the stocks and bonds, the checks and drafts, the bills of exchange, are many times the cash in hand. They are so readily exchangeable for cash as to make them almost interchangeable; while not money, they may be said to be *almost* money.

Money, the Base of Trade

The foundation of trade today is money. As is well known, for a long period of time the foundation of trade was property—but today it is money. The expectation, founded either on hope or on experience, that money will be paid when demanded,

*Conant, in his "Wall Street and the Country," says:
Securities form one of the greatest and most important parts of the modern mechanism of exchange. They are, in many cases, as good as money, and in some cases are better than money.

creates credit. The advantages derived from Credit* are so manifold, that in all but small transactions it has now almost entirely taken the place of money, except insofar as money is used in the settlement of credit transactions—which will be shown to be but, say, one in twenty. Credit is often given in small operations without taking any tangible evidence of the debt; but in large operations notes of hand (promises to pay) are given—and these are discounted at banks, being a large part of their business. Notes of hand are, however, not the only promises to pay.

Promises to Pay

Many forms of money are but promises to pay; coins (except gold coins) are in effect merely promises to pay; they are seldom worth their face value, and therefore carry the implied promise of the government that their stated value in gold will be given on demand. Most paper money is a promise to pay; it is called "notes," just as a promise to pay is called a "note," and states on its face "The United States of America *will* pay to bearer on demand." Government bonds are promises to pay; the difference between them and paper money being practically only that one is a deferred note, bearing interest, and that the other is a demand note, which does not bear interest.

Checks and Drafts

The payment of money, in large business operations, is not direct—it is done by means of written paper instruments called checks, which direct a bank to pay to the person named

*See subtitles on "The Value of Credit" and "Credit in Business," in chapter on "Business and Speculation."

in the paper the amount of money called for by the paper; or it is done by other paper instruments, called drafts, which are orders on a bank, to collect the amount of money called for by the paper. And so great has become the use of these substitutes for money, that money itself is only used in proportion of one in twenty, as to the amounts called for by these written pieces of paper. Bills of Exchange are similar papers, usually availed of in foreign operations.

Bank Assets*

The assets of banks* have been looked into in another chapter. It is seen that the business of banks is chiefly confined to handling promises to pay and orders to pay. Of bank assets but little is in cash, the greater portion being in promises to pay, given against security of real estate, stocks and bonds, advances to other banks, and the like.

Stocks are Property

Bonds are promises to pay money but *stocks* are property.† A loan on a *stock* is not different from a loan on *real estate* or on household goods—all are property, and subject to the same general legal conditions. Loans on stocks are made on agreements accompanied by promises to pay, just as loans on real estate are made on agreements accompanied by promises to pay—in both cases, a note is given and security is pledged.

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*As pointed out on page 95, the stocks and bonds owned outright by the banks in the United States on October 31, 1917, were of a value of $8,403,819,980, and that probably ten million dollars more of the deposits in banks were loaned on stocks and bonds, while the total cash actually in hand was only $1,502,452,094, or twelve times as much in stocks and bonds as in cash.

†"This is a new species of property arisen within the compass of a few years. It is not money."—Lord (Justice) Mansfield, in deciding a case in which it was alleged that stocks are money.—England, 1770.

Exchanges of Property

Before money was invented, the producer of an article or of a crop, exchanged his production or crop for that of another producer or grower; as communities increased in density, some common article was accepted as a general medium of exchange. With the American Indians it was wampum; among other savages, it has been corn, grain, seashells, beads, whatnot; with the settlers in Maryland and Virginia it was tobacco. Among the early traders, ornaments were the customary vehicle of exchange, so that gradually the metals of which those ornaments were made became the recognized standards of exchange. Where the trader did not have in hand the wampum, tobacco, corn or other exchange-base, he gave his promise to pay it at a future date; so that the promissory note of today has an ancient and honorable pedigree. Today, property is exchanged in the form of stocks and of warehouse receipts, finance bills, or bills of exchange. Title to millions of dollars' worth of raw or manufactured products passes by such means, and credit is freely given, here or abroad, as may be required, on deposit of these forms of commercial paper.*

Mercantile Credit

To be able to borrow or to receive credit (get goods or money, on payment to be made at a future day), a merchant, a corporation, or a nation, undergoes the same tests—each must have

*Conant, in his "Principles of Money and Banking," says: "Negotiable securities which are quoted upon the exchanges rank next to banking credits as a medium of exchange, because they are more readily convertible into money or credits than any specific commodity. Their value in this respect was recognized at least a century ago, in the London market. It was declared by Thornton, in 1807, that stocks, 'by being at all times a salable and ready money article, are, to a certain degree, held by persons in London on the same principle as bills, and serve, therefore, in some measure like bills, if we consider these as a discountable article, to spare the use of bank notes'."

a good record, must not be too deeply in debt, and must have stock in hand. The stock in hand of a a nation are its reserves of gold, kept in its treasury; the reserves of a merchant are goods on his shelves, and his bank account; the reserves of a corporation are its earning power, its machinery and plant, its cash in hand, and the like.

Liquid Assets

The assets of a bank, must be readily convertible into cash.* No assets are so readily exchangeable for cash as are listed securities. The holder of an unlisted security is not unlike the holder of foreign money. In the market where the unlisted security is well known, its holder may possibly receive its market value—he would most certainly *not* receive it in a market where it was unknown; and no holder of foreign money, even gold money, receives its face in any market other than in the country which issued it—and as to paper money, the discount demanded would be much greater. Bank assets, therefore, in stocks and bonds, are preferably in listed stocks and bonds.†

Stocks and Bonds

A stock of a company is a certificate of ownership in the assets and earnings of the company, after its debts have been paid; a bond of the company is a certificate of creditorship. The interest therefore of the stockholder and the bondholder are not identical—the one is the debtor, the other the

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*Page 31.

†Emery, in his "Speculation on the Stock and Produce Exchanges of the United States," says:

"Stock Exchange securities form an ideal collateral. Their importance in this connection is very great. Indeed, it is hard to conceive of the credit system and money market of to day existing without the Stock Exchange."

creditor. However, it is most usual that the stockholder also owns bonds of his company, and the reverse; in a broad sense, both are intensely interested in the success of the company, and it is only when that success is uncertain that the interests of the respective holders clash. Many bonds have been issued with the "debtor and creditor" idea in mind, and these provide that the bondholder may exchange his bond (under conditions laid down in the bond) for a certain amount of stock; thus a debt is paid without diminishing the assets. Such bonds are called "convertible" bonds.*

Kinds of Bonds

Listed bonds are not unlike real-estate mortgages; in fact first mortgage bonds are usually real-estate mortgages, for larger amount than the usual real-estate mortgage, and for that reason divided into small participations. Bonds are issued in as small values as $100 and sometimes even $50, but a real-estate mortgage of so small a size would be most unusual. However, the law covering executions of trusts on default of bonds is practically similar to the law covering foreclosure on a real-estate mortgage. Just as with real estate, on which at times, second and third mortgages are placed, first, second, and other mortgage bonds are issued on corporation properties. In addition, listed bonds are known as "general mortgage," "purchase money," "unified," "prior lien," "consolidated," and other names; and they are also known by the purpose to which the money derived from them is to be used, such as "divisional," "terminal," "extension," "construction," and the like.

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*See page 118.

Other Forms of Bonds

There are forms of bonds which are not real estate mortgages, such as "equipment," "collateral," and the like, the mortgages in such cases being practically chattel mortgages. Such bonds as "debenture" bonds are often not a mortgage bond, but are merely a sort of prior-lien note, without security, being about of the nature of a first preferred stock; "income" and "adjustment" bonds are often of this latter nature, without security, and like a preferred stock, without voting power.

Stocks Listings

Stocks are of various kinds, according to the priority of participation by the holder, in the assets and earnings of the company; the usual varieties are first or second preferred, common (called ordinary, in England and Canada); and sometimes a "deferred" stock is issued. The Exchange requires that the essential facts regarding both bonds and stocks shall be engraved, either upon the face or the reverse of the bond or stock, so that the holder shall have in his hand the actual facts as to his rights in and to such pieces of paper. In addition, the company which issues such papers must give to the Exchange an elaborately detailed statement* regarding the company, its history, its property, its management, its financial condition, with other facts too numerous to be taken up here, but which may be seen by referring to the Listing Requirements, given in the Appendix. The rules for engraving have been combated, at times, but their desirability will be seen, on reference to the Requirements. The extent of wealth in the forms

*See extract from Report of House of Representatives Committee, page 14.

of property covered by stocks and bonds is so great* that any laxity in insuring great honesty in the engraving and issue of securities would be reprehensible.

Par of Stocks

The "par" of a stock is its stated face value. The face value or "par" of a stock does not mean that that is the worth of the stock. The usual par is $100 per share, but many companies have a par as little as $1, and some shares are issued of "no-par." Some claim that "no-par" stocks are less liable to mislead an innocent purchaser, and their issue was recommended by a commission appointed by President Taft. It is difficult, however, to determine the standing of a "no-par" company by the price of its stock. Where a $100 par stock is selling at say $10 a share, the public knows the value needs inquiry into, but as to a "no-par" stock no such standard is at hand. However, the claim is advanced that watering of stock is retarded in the "no-par" stocks. This is a question which time only can properly determine.

Paper Money and Bonds

Paper money in denominations of $500, $1,000, and $10,000 is rarely seen; but bonds of these denominations pass and repass with great frequency, and their ready acceptance requires unusual safeguards in issue and appearance. Bonds are of two kinds, coupon and registered. Bonds of value greater than $1,000 are usually "registered" and most coupon bonds of a value of $500 and $1,000 are "registerable," that is, may have the name of the owner inscribed thereon, thus insuring safety

*See page 88.

in case of theft. A stolen "unregistered" coupon bond is difficult of recovery from one who has bought it at or about its market value. A registered bond, however, is easier of recovery, and if not recoverable, may be replaced by another, under proper conditions, including cost of issue (which is slight) and deposit of a proper indemnity bond. Interest on a registered bond is sent by check to the address of the registered holder. The interest on coupon bonds is paid on presentation of the "coupon," which is a part of a sheet of like coupons, attached to the bond, and calling for payment of the stated amount of interest. Lost coupons are seldom recovered; they are, at payment dates, almost cash. Coupon bonds usually sell for a slightly better price than registered bonds of the same issue, because coupon bonds are almost like cash, and are deliverable without the delay, arising from discharge from registry, as must occur with a registered bond. In addition, they are less liable to taxation than registered bonds.

Lost or Stolen Stocks

Lost or stolen stocks may also be replaced by others, under proper conditions; companies have not agreed upon general rules as to such replacement; but the laws of many States have exact requirements upon this point. The rules of the Exchange with regard to stolen stocks or bonds are intended to conserve the interest of the rightful owner; and "reclamation" may be made, in accordance with those rules, the rights of the parties within the Exchange being decided by the Committee on Securities. Forged or illegally issued securities also come before that Committee, but it is exceed-

ingly rare that a forged or illegal issue is brought to its attention. Cases of forged endorsements, however, do arise, and the decisions of this Committee obviate legal delays and expense, and must be accepted by members of the Exchange.

Uniform Securities Law

Many of the States have agreed upon a "uniform securities" law. This law fixes the rights of parties in and to securities. Broadly speaking, the responsibility for the safekeeping of one's stocks and bonds is placed, like that for other property, in the hands of oneself; the law, however, has, as yet not been fully construed, and as this is not an authority on law, the matter will be merely alluded to.

Listed Securities

The listings in the Exchange in 1869, just after the Civil War, were $3,000,000,000, but regarding these issues little information was required. There are listed on the Exchange, today, under the conditions outlined in the Listing Requirements, bonds to the value of $12,934,779,300 and stocks to the value of $17,277,145,000, a total over thirty-one billions of dollars, not including some $15,000,000,000 of bonds of our own and of foreign nations, states and cities. The additions to the List in the past few years have amounted to nearly one billion of dollars per annum. It would seem likely this rate will continue, so vast is the increase in wealth of our country. The details of such listings are fully given in the Listing Applications, on file with the Exchange; a stockholder in any company whose securities are listed is freely supplied with a copy of the information filed

with the Exchange. The Exchange cannot be responsible for the information given by such companies, but its Committee on Stock List attempts to secure the fullest and most truthful statement possible, and it is rare that the facts elicited have been found to be false.

LISTINGS ON THE EXCHANGE

December 31, 1917.

Does not include reorganizations in bonds, or stocks, of any kind; does not include *any* U. S. Liberty Loans.

Bonds:	
U. S. Government Bonds	$895,081,000
Bonds of Insular Possessions	13,500,000
Bonds of Foreign Countries and Cities	6,922,848,600
State and Municipal Bonds (U. S.)	772,050,400
	$8,603,480,000
Other Bonds.	
Railroad Bonds	$9,478,679,200
Telephone and Telegraph Bonds	452,966,600
Coal and Iron Co. Bonds	127,625,700
Manufacturing and Industrial Bonds	1,040,523,000
Miscellaneous	573,128,800
Gas and Electric Bonds	399,701,900
Street Railway Bonds	862,154,100
	$12,934,779,300
Total Bonds	$21,538,259,300
Stocks:	
Railroad	$6,712,182,800
Oil Companies	291,928,600
Mining Companies	1,021,973,000
Street Railways	633,890,100
Express Companies	63,967,300
Coal and Iron Companies	170,971,200
Gas and Electric Companies	444,928,000
Telephone and Telegraph Companies	669,909,700
Manufacturing and Industrial Cos	6,316,478,500
Banks	236,339,200
Trust Companies	10,000,000
Miscellaneous	704,576,600
	$17,277,145,000
	$38,815,404,300

FORM FOR COUPON OF BOND

GENERAL REQUIREMENTS ON ENGRAVING

(Formulated by Committee on Stock List.)

All securities for which listing upon the Exchange is requested, except as otherwise herein stated, must be engraved and printed in a manner satisfactory to this Committee from at least two steel plates by an engraving company whose work this Committee is authorized by the Governing Committee to pass upon; the name of the engraving company must appear upon the face of all securities and also upon the face of coupons and the titie panel of each bond. Securities must bear a vignette upon their face.

Said plates shall be: (1) *A border and tint plate* from which should be made a printing in color underlying important portions of the face printing; (2) *A face plate* containing the vignettes and descriptive or promissory portion of the document, which should be printed in black or in black mixed with a color. The combined effect of the impression from these plates must be as effectual security as possible against counterfeiting.

The printing of securities should be in distinctive colors, to make classes and denominations readily distinguishable.

A change in the form of a security, transfer agency, registrar, or trustee of bonds, shall not be made without the approval of the Committee.

MONEY USED IN SPECULATION

"Strange to say, in this city of money, money cannot be seen; money makes no appearance in a transaction. Bits of paper, with some writing on them, are the potent agents of the scene. Paper, paper everywhere, but no money. If you pay a man, you give him a check; if you discount a bill, you get a check; if you obtain a loan, your banker places the amount to your credit. It is the ghost of money that occupies the city; money in its most civilized form. It is the check system; for, after all, money is but a form of credit, a thing which men, by common consent, have agreed to recognize as a symbol of wealth, a representative of property."—Manual of the Stock Exchange, 1865.

"Money Trust" Investigation

Part of the work of the so-called "Money Trust Investigation," in 1912, was directed to the subject of the money used in speculation, especially as to whether such a use is a detriment to general business. The report on this matter was made just a year after the investigation began; no word, however, is found in the report to indicate that the Exchange is or ever was a part of a "Money Trust" or under its control.

New York City Banking Resources

The report showed that the resources of the banks of New York City, at that time, were $5,121,245,175, being about one-fifth those of the entire country; and that about $775,000,000 (say one-seventh of the resources of the City banks, and about one-thirty-third of those of the country) were being loaned against security in the form of stocks and bonds. What part of this amount was on listed securities was not set forth.

Wealth of the Country

The wealth of the country in 1912 was not far from $175,000,000,000, of which perhaps one-third was represented by properties which had issued stocks and bonds, or say $55,000,000,000; about $25,000,000,000 of stocks and bonds (not including Government bonds) were listed upon the Exchange, or say one-seventh of the wealth of the country. If all of the $775,000,000 had been loaned on listed securities, loans of one-thirty-third of the country's wealth were being made on stocks and bonds representing one-seventh that wealth, or only about 22½% of what they would be proportionately entitled to.

Sales Exceeding Transfers*

In alluding to the undisputed fact that the number of shares of any active stock sold in any given time exceeds the number of shares transferred, the report said: "It withdraws from productive industry vast quantities of capital." We have already read the opinion of the Supreme Court of the United States, that the excess of sales of grain over that grown is no more wonderful than the excess of checks over the cash required in bank clearings. And as to the "vast quantities of capital" withdrawn from productive industry, we have already seen that most industries which require large capital are in corporate form, and that the listed stocks and bonds represented at that time one-seventh of the country's wealth, with but one-thirty-third of that wealth used in transactions in those stocks and bonds; so that this form of the assertion is neither serious nor true.

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*See page 82.

Capital Withdrawn from Industry

But, further, we know that speculation does not *withdraw* capital from industry, but actually *provides* capital *for* industry. And, still further, reflection will show that money spent in making a purchase is not necessarily money "withdrawn." If the price is paid in cash from the pocket, it is not "withdrawn," in the sense used. If the price is paid by check, it is also not withdrawn—it is merely changed from one bank to another, and, through the banks' clearing-system, only one-sixteenth of the amount is used in cash. It has been shown that a large proportion of the country's wealth is represented by stocks and bonds, other wealth being in real estate, merchandise, manufactures, household goods, ornaments, and the like. Surely it would seem not inequitable that a fair proportion of cash in hand might be used in buying and selling stocks and bonds, as well as in buying and selling any of the other forms of that wealth.

Bank Clearings

Elsewhere herein,* reference is made to the fact that, because of the use of checks and check-clearings, the use of cash (except in the most trifling business operations) is practically unnecessary. The Bank's clearing-system is very simple; it saves not only much labor and danger from loss, but also saves the use of much actual cash. During 1917 the clearings in New York City were $181,534,031,388, a daily average of $601,106,064, requiring a daily average of cash to the extent of only $40,244,475 in settlement, or

*Page 94.

6.69%—say $1 in cash for every $16 in checks. Without this clearing-system, the banks would each have had to send to the other, the checks drawn on that other, get the *cash* from each, and carry it to its own safes. Thus the whole of the $601,-106,064 might have been required every day *in cash*, to pay the checks thus presented. But, by sending all checks to the Bank's clearing-house (where each bank is credited with the checks it sends, and charged with those sent in against it by the other banks), only a small balance of actual cash is required to settle the whole combined transactions.

Stock Clearings

The Exchange also operates a clearing-system of its own, similar to that of the Bank's check-clearing-system. The following will illustrate its operations: A sells 100 shares of a stock to B, who now sells it (or has previously sold it) to C; C may previously have sold 100 shares of the same stock to, or have loaned them to, D, and is now getting it in to make his delivery to D. Here we have four people interested in three transactions. Instead of delivering to each other, collecting as each goes about the delivery, requiring cash at each step, each sends a notice of his transaction to the Exchange clearing-house, resulting in A delivering the stock directly to D, getting D's check, and saving the intermediate steps of delivery and payment. There are over a hundred stocks "cleared;" and it will be seen that the amount of labor and money required is cut down enormously, the balances being only about 12½% of the actual value of the transactions.

Putting a Stock "on"

When a stock becomes active on the Exchange, it is "put in the clearing-house," that is, added to the list of stocks which must be cleared. A "clearance" stock *must* be cleared, except under very unusual circumstances, provided for in the rules. About one-third of the stocks on the Exchange are cleared, but transactions in these stocks amount to nearly 90% of the business done on the average day.

Legal Delivery*

The Courts have uniformly upheld the legality of delivery through a properly-organized clearing-house. Suits have been brought, through which dishonest persons tried to escape from contracts by alleging that clearing is merely gambling; but the Courts have decided that where many persons owe one another, and have agreed that the last one in line shall pay the first in line, they thereby settle the obligation of those in between, just as though each had, in turn, paid the other.

One Day's Speculation

The total sales of stock on the Exchange in 1917 were 184,623,321 shares, an average of about 600,000 shares per day. Statistics show that the average value of the "cleared" stocks is $70 per share, while that of the non-cleared stocks is $50 per share. This does not mean that the average stock is selling at 70%, or 50%, of its face value. Many shares are of less par value than $100, so that $50 for instance would be over the par value of certain stocks. Ninety per cent. of 600,000

*"This court has upheld sales of stock for future delivery and the substitution of parties provided for by the rules of the Chicago Stock Exchange." —U. S. Supreme Court, Clews *vs.* Jamieson.

shares would give 540,000 shares as the average day's business in cleared stocks, and leave 60,000 shares as the average day's business in the non-cleared stocks. With an average value of $70 per share, for 540,000 "cleared" shares, if payment for each sale were required in cash, $37,800,000 in cash would be required on each "cleared" day's business on the Exchange; but, by reason of the Exchange clearing-system, we find that checks are needed for only 40% of the money involved, or $15,120,000. These checks for $15,120,000 have been drawn by Exchange members on the several banks who are members of the bank's clearing-system—and accordingly these checks now go through that clearing-house where, as we have seen, cash is required for only one-sixteenth of the money represented by the checks put in. Therefore the checks for $15,120,000 are now settled through the bank's clearing-system by the payment *in actual cash* of only about $945,000. Thus, through the two clearing-systems, the average day's business on the Exchange during 1917, in cleared stocks involving sales to the amount of $37,800,000 were ultimately settled by the payment of about $945,000 in cash, or say only 2½% of the value of the "cleared" shares.

Non-cleared Transactions

On the basis of 90% of the stocks "cleared," and 10% non-"cleared" (or, as the technical term has it, "Ex-Clearing-House") we find that 60,000 of the shares on the average day in 1917 practically required payment in full. As has been shown, the average value of these shares was,

say, \$50, so that payment in full, in cash, would have required \$3,000,000. During 1917 the sales of bonds (at par) amounted to \$1,034,569,000. Estimating the average price of bonds as 80% of par, or a total sale value of \$827,655,200 for the year, a daily average of about \$2,758,833, would be needed *in cash*, if each transaction were required to be paid in cash, or a total for non-cleared stocks and bonds of \$5,758,833. As will be recalled, the cleared transactions would have required \$15,120,000 if settled outside the bank's clearing-house. It is now seen that the non-cleared transactions, although only about one-seventh the value of the cleared transactions, would actually require proportionately more money to effect payment in cash in full. Of course, checks given in payment for non-cleared stocks also pass through the bank's clearing-system, the actual cash required being reduced by fifteen-sixteenths through that operation; so that the final total *cash* required would only be about \$359,875, or about half the total amount needed for the cleared transactions. The tremendous proportionate saving in cash through clearing operations is thus lucidly shown. The amount of money involved in transactions in "odd-lots" is not taken into consideration in this computation.

Extensions of Clearings

Extensions of the clearing system are under consideration by the Exchange. In order to properly compare its clearing system with those of foreign exchanges, the Chairman of the Exchange Clearing-House Committee was, in 1914, requested to visit foreign cities and report his findings regarding foreign stock clearing methods;

these findings have been put out in printed form, under the heading, "A description of methods of receipt and delivery of securities in use in Paris, Berlin and Vienna."* The methods in these foreign centers differ from ours, mainly in that they include "the receipt and delivery of all securities at a central institution," requiring a reduced volume of money and labor, whereas the method here is that securities are received and delivered at the offices of the respective members, necessitating individual handling of securities, and greater proportionate volume of money.

Daily vs. Term Settlements

There has been much discussion of a trial of settlements other than daily, with the view to determining the advantages or disadvantages to accrue therefrom. The foreign Exchanges all have "term" settlements at weekly, fortnightly, or monthly settlement days. The great argument against a "term" settlement is the risk from enlarged commitments, arising during the term, and the larger amount of cash required on settlement days; the great argument in favor of such settlements is the reducton of labor required, and the elimination of friction between borrower and lender—in the daily settlement, daily labor and daily borrowings are necessary, while in "term" settlements these items are very materially reduced. The risk involved in "term" settlements is that liability for commitments are open during the entire period, and that traders may over-extend between settlement days, augmenting the demands upon them at settlement

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*By S. F. Streit, Chairman Committee on Clearing House, New York Stock Exchange.

time; at term settlements, also, an extraordinary demand for money is set up; even though many "bargains" (as stock sales are there called) have been "undone" before settlement day, the accumulation of those not undone and requiring settlement is in excess in money value what the amount for any one day would have been, varying, so far as the figures can be obtained from two and a half to four times the amount. On the other hand, between settlements, no such demand is met; and the alternate demand, and lack of demand, are a greater strain than a fairly constant requirement for a less amount of cash. The demands at "term" settlement days would seem to indicate higher interest rates for money at those periods than at daily settlements. However, because of the uncertainty regarding the volume of European business, this matter cannot here be definitely determined, especially as it is further involved with the matter of foreign arbitrage dealings in stocks and in foreign exchange transactions, as elsewhere herein referred to.

High-Money Rates

Much unfair criticism has been expressed as to money-rates on loans on stocks. In Europe the interest rate remains fixed, but the banks charge a *premium;* the money rate, as fixed for instance by the Bank of England at 4½%, is 4½% to the broker, as well as to anyone else; but if money is scarce, brokers and others are charged a premium for the day of say 1-64%; 1-64% premium for the day is at the rate of another 6% per annum, so that the money rate for the day is actually 10½% although published as being only 4½%. In New York, it *would* be published as

10½%, the actual fact; but abroad, the gentle art of financial "camouflage" is well understood. A rate of 1-32% would mean an additional charge at the rate of 6% per annum, or 16½% in all, which is not uncommon in London on settlement days, but very uncommon in New York.

Foreign Exchange

The stock market plays an important part in the transfer of credits from one country to another, thus obviating the shipment of gold. The vast volume of wealth held by foreigners in the form of American stocks and bonds has but recently been a means of payment by our Allies for supplies. For a time, the actual gold was sent to this country, resulting in the greatest supply of gold ever seen in one land being held in the United States. However, Great Britain took a census of American securities held by its citizens, and invited their deposit in London, against British bonds; those securities or part of them were then sent to America, in payment, or deposited as security, for goods bought here; thus the transfer of gold across the seas was obviated.

Transfer of Gold Obviated

In times of peace, the sales of securities between here and abroad act in payment of our import balances; while the return of bond coupons, and payment on dividends, produce a credit here in favor of the foreigner, both thus obviating gold transfers to an appreciable degree. The sales of securities on the Exchange on an ordinary day (during peace) for account of Europe, have been ten per cent. of the total business, thus running up into a large sum of

money, which money, not being susceptible to reduction by clearing, as with local or domestic purchases, must be either handled with all cash, or through the international credits just referred to. This feature of the value of the Exchange is little understood by the casual observer, but is none the less of much importance. Gold sunk in the sea is lost forever; a bond or stock lost is replaceable by a duplicate, so that funds in securities are sometimes better than funds in cash.

Other Uses for Money

It has been shown that six-sevenths of bank resources in New York City are devoted to uses other than loans on securities.* Loans on real estate, to merchants, to manufacturers and to other important lines of business, require a vast volume of money. The amount available varies according to the condition of the banks. This condition is summarized weekly in the Bank Statement, published on Saturdays at about 11:30 A. M., which combines the figures for the clearing banks of New York City.

The Bank Statement

The four most important items in the Bank Statement are: 1. The cash reserve; 2. Loans outstanding; 3. Deposits; 4. Surplus Reserve. The "Street" tries to forecast the Statement; it keeps the surplus reserve steadily in view; when it begins to decline, the money rate is apt to be high, and money tight and prices lower, and the "bears" are busy; when the surplus reserve is fairly large the money rate is apt to be low, prices better, and the "bulls" happy; yet too large

*Page 181.

a surplus reserve may mean that business is stagnant. The cash reserve may be affected by the movement of money—First. For export or import; Second. By shipment to the interior; Third. By payments to, or for the account of the Treasury. The crop movement period is an anxious one to the money market; the small farmer keeps no bank account, and pays his help in cash. The funds he needs cannot be sent him by checks or bank drafts, but must be in actual currency.*

Some Uses For Money

The Census Department has estimated that the wealth of the United States in 1915 was $188,000,000,000 of which real estate was 110 billions, or say 55%; railways and street railways 26 billions, or say 12%; manufactured products and machinery 21 billions, or say 12%; live stock and agricultural products was 11 billions, or say 5½%; furniture, carriages, automobiles, clothing, jewelry, etc., was 13 billions, or say 6½%; the other 9% was not accounted for specifically, but it can probably be assigned to waterpower, wireless telegraphy, moving picture enterprises, and other very modern projects. Against this wealth, or representing it, as has already been shown, about 100 billions of stocks and bonds have been issued, not counting Government bonds. Trading in these securities (representing over one-half of the wealth of the country) must naturally be a great part of our general commerce.

Promoting Speculation

The theory is advanced by some that the operation of clearing stocks should be abolished; it is said to "promote speculation beyond what it would be, if deliveries had to be made of the cer-

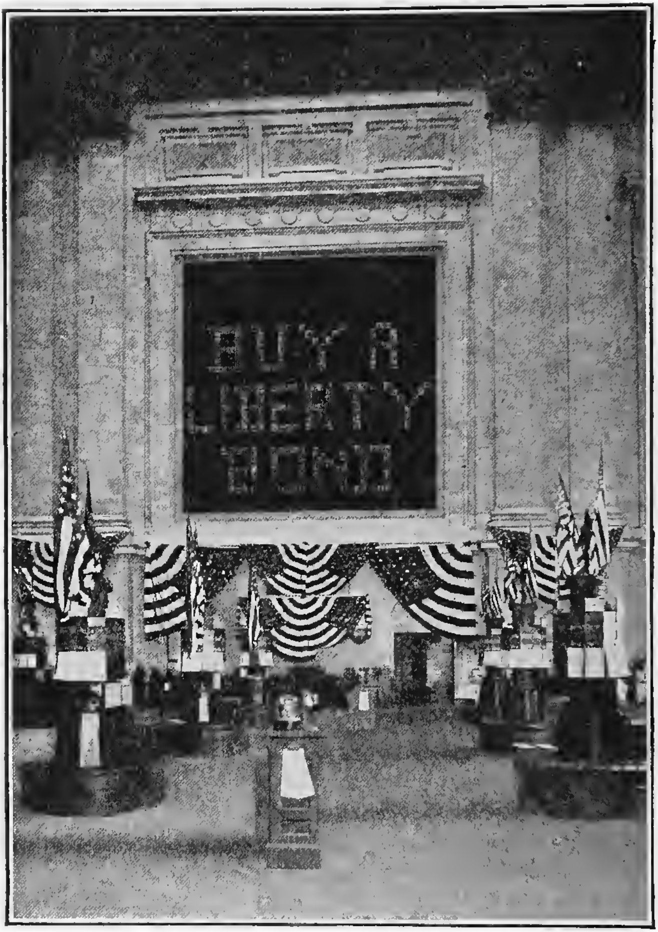
*Condensed from "Work of Wall Street."—S. S. Pratt.

tificates for the full number of shares bought and sold." This conclusion is far from obvious. Handling the actual certificates from office to office would be a great inconvenience, but would not prevent them being bought and sold. All that would be accomplished would seem to be that a greater risk would be run, from error, loss of certificates, etc. The clearing system was established to save the use of *money*. Preventing payment for stocks by this method would increase the use of money. The opinion of the Hughes Committee on the subject can well be here quoted:

> "We are of the opinion that the Stock Exchange could not do *its necessary and legitimate business* but for the existence of the clearing system, and therefore it is not wise to abolish it."

Conclusions

It has been seen that the transactions on the Exchange are rightfully entitled to a proper proportion of the money of the country—but that not 25% of that proportion is so used. It is seen that the Exchange has instituted and is extending means which materially reduce the use of cash in the handling of securities; that criticism of the money rate on stock loans is not based on fair grounds; and that the Exchange performs a useful function in foreign transfers of funds, obviating the handling of gold. The position of the Exchange in this, as in other matters pertaining to speculation, is misunderstood, because of failure to properly represent the facts to a discriminating public.



PART OF EXCHANGE FLOOR

On occasion of a Liberty Loan rally. The words "Buy a Liberty Bond" are formed by putting up members' numbers (see page 245). By using a small magnifying glass these numbers can readily be distinguished in the photo. The numbers are actually about 9 inches tall.

SHORT SELLING

"A short sale is not a gambling operation."—
U. S. Circuit Court, District of Columbia.

A Short Sale of Merchandise

There is no phase of speculation which induces as much interest as "short selling." It has been discussed by many people, from the office boy to the legislator, and it is safe to say that perhaps not one in one thousand really has any idea as to what it is or means. To sell something one does not own seems unusual to the non-business mind. Study of short selling, however, shows it to be a common business practice and no different in stocks than in any other form of property. When a customer enters a store, he may find the article he is looking for, in which case, if the price suits him, he buys it, and has it sent to him. If, however, the store has none of that article in stock, the merchant or his clerk may say to the intending buyer: "We are just out of that; we are expecting it in, and will be glad to take your order and send it to you, when it is received." Where the article is sold from stock on hand, it is "long" selling; where the article is sold to be delivered out of goods expected in, or specially ordered, it is "short selling." The merchant who makes such a sale, can be compelled by law to deliver the article he has thus sold, or to pay damages for his failure to make such delivery.

A Short Sale by the "Drummer" or Manufacturer

Before the merchant has his stock upon his shelves, he has received visits from various traveling salesmen, who handle the lines of goods dealt in by the merchant. These salesmen usually have with them a great variety of samples, and from these samples the merchant is expected to make his purchases. Where the goods dealt in are too bulky to display by sample, catalogues are shown instead, often illustrated. The bulk of mercantile purchases are made from such samples and catalogues. The traveling salesman does not pretend that his house has made up, ready for immediate delivery, enough of the different kinds and grades of articles which he is offering for sale; it is an understood matter that a reasonable time is allowed the manufacturer in which to get together the articles his salesman is offering. The manufacturer whose salesman is offering the goods, and contracting for their delivery may have but little, or even none of the foundation materials out of which the finished goods are to be made—yet he contracts for their delivery at a specified time and price. And the merchant can compel, by law, the delivery of the articles sold him by the salesman, or can demand damages for failure to make such delivery.

A Short Sale by a Builder

If the customer referred to above were looking for a home, instead of an article of merchandise, he might in the course of his search come across a builder whose product he liked, and might offer to buy one of the houses that the builder was displaying. This particular house, however,

may just have been sold to some other buyer. The builder, if he cannot get the customer to take some other house, will most likely offer to build a house of the style which pleased the intending buyer; and if they come to an agreement, he will proceed to carry out his bargain; and the buyer can compel, by law, the delivery of the particular house thus contracted for, or demand damages for the failure of the builder to fulfill his contract.

A Short Sale by the City or State

A City or State may determine that it needs a certain amount of cash, and in order to obtain it offers to the highest bidder its bonds, issuable upon a certain future date, at a certain interest rate. For instance, the City of New York may advertise that it will issue on a future date a 4½% bond, and offer the entire issue to the highest bidder. At the time of bidding, each bidder must accompany his bid with his certified check for 2% of the amount of his bid. The proposed bonds are not yet issued, are not even engraved—in many cases, the bonds are not delivered until months after their issue date; but the City or State will make the sale, receive payment in full for the entire issue, deliver a temporary receipt or receipts covering the issue, which entitle the holder, when the bonds are actually issued, to bonds in exchange, up to the face value of the receipt or receipts surrendered.

Magazines Sold Short

The publisher of a magazine sells "short" when he solicits and receives money for subscriptions, in advance.

As Professor Emery has said: "This view (that speculation is morally wrong in itself)

is held by the greater part of the newspaper press." Yet what greater speculation can one engage in than to accept payment in advance for, say, a year for a magazine for which the publisher has no part of the raw product—neither paper, nor ink, articles or illustrations; or for which he is not sure of the labor necessary to produce the magazine, nor can the publisher be sure that his paper will be run at a profit—which uncertainty is speculation. It is well known that the profit from magazine publication comes from the advertising carried by the publications, and that the value of the advertising depends on the subscription list; so that we have here a sort of three-sided speculation—if enough subscriptions are received, enough advertisements will be received, and if enough of both are received, the magazine will be a business success, and if a business success, it will continue to run for the term for which the subscriber has paid in advance. So that, in addition to selling "short" the publisher has also been speculating in the most decided manner.

Selling What One Does Not Own

Selling what one does not own, therefore, is seen to be a matter of the most ordinary business experience. In each of the above cases, the seller has sold something he does not possess. The merchant, the publisher, the manufacturer, the builder, the City or the State, were each "short" of the thing they have sold and agreed to deliver. Of course, they could reasonably hope to get it, and could reasonably hope to be benefitted by making the sale; and of course, there can be no objection of any sort to any or all of them making such a sale.

A Short Sale of Stock

A customer comes into the office of a broker, and asks him if he has a certain issue of stock; the broker may have it; in which case, if the price suits the inquirer, a purchase and sale occur: An exactly similar proceeding to what occurred in the store, in our first illustration. If the broker does not have the stock, he may say, "I will sell it to you at your price," the bargain is made, a deposit paid down by the customer, and the broker begins looking around to see where he can get the stock at a price to show him a profit. The customer can enforce delivery, under damages, of the stock so bought. The first case was "long" selling; the second, "short" selling. No one can assert that the sale of the not-in-hand stock was any different from the sale of the not-in-hand merchandise. Both the stock and the merchandise were property—both were personal property—and the transaction as to both were subject to the same general principles of law.

Neither merchant nor broker will confine himself to selling only what he has on hand—each will also sell something he does *not have on hand* in the hope of getting it in later, at a price to show him a profit.

The Main Difference

A difference, however, between these transactions is that the merchant is not compelled to at once deliver what he has sold, unless he has specially promised to do so; but the broker who has sold the stock must deliver it the following business day; and the customer who has bought it must receive it, and pay for it in full. Therefore, if the

broker has sold a stock which he did not have in hand, he must go out and buy or borrow it, in time for such delivery. If the price is attractive he buys; but, if he believes the price to be too high, he borrows the stock he has sold, and delivers this borrowed stock. He is now no longer a *seller*, but a *borrower;* he has completed his sale. He is now in the position of a man who goes to his bank, and borrows money on a demand note. Such borrowing of money is very usual; all banks lend money on that basis—the borrower deposits security, signs a collateral loan agreement, and receives the amount of cash warranted by the amount of security he deposits. In the case of borrowed stock, the *borrower* of stock, gives to the lender in cash the market value of the borrowed stock; but both operations are similar—in both, one person hands security over to another person, who hands back cash.

Why Stocks are Borrowable

The prospects for profit to the "short" seller, therefore, are inextricably bound up with his possibilities for borrowing stock of the kind he has sold, but does not own. But, you may ask, "Why should a broker lend a stock to another broker who, not owning the stock, has nevertheless sold it in the hope of buying it cheaper than the sale price? Would not such a sale of stock depress the market, and thus reduce the value of the stock of the man who is now asked to lend it? Why should broker No. 2 help broker No. 1 to make him, broker No. 2 poorer?" Well, perhaps broker No. 2 may have use for the money broker No. 1 deposits as security, or may think

broker No. 1 is mistaken—besides, broker No. 2 has it within his power to demand immediate return of the stock he has loaned broker No. 1;* and the enforcement of that demand will compel broker No. 1 to either buy the stock, or to go elsewhere to borrow it for delivery. And no broker can be going around borrowing stock without it being generally known that somebody is "short." Broker No. 2, on lending the stock, is getting from the borrowing broker 100% of the market value of the stock, whereas a bank would have loaned the lender only about 80% of that value; and if the stock is well-borrowed, that is, if there is much demand for it, the lending broker can require the borrower to let his money go without interest, or at a rate lower than the bank will charge, the lender thus getting money at little or no interest. All brokerage houses are borrowers of money, and the larger amount they are able to borrow, on a given collateral, and the lower the interest rate, the greater their profit in the long run on interest account.

Reasons for Selling

Stocks are sold for the same reasons as other property—the seller may see a profit; be tired of owning the article, and be glad to get it off his hands; or think he can buy it back at a lower price. The "long" seller may be acting on any one of these ideas; the "short" seller is acting only on the latter. The lender of the stock, like the bank which lends money, can demand its return, and return *must be made.* If the judgment of the "short" was good, the stock will fall to a point where he can buy it in

*If loaned stock is not returned on proper demand the lender may "buy it in" on the Exchange and apply the deposited cash to that purchase.

at a profit; if it was bad, he will be compelled to buy it in at a loss. If his judgment has been good, he has done the world a favor, in pointing out that the stock *was* too high; and if his judgment has been bad, he has also done it a favor, because he gives a profit to the person from whom he now must buy.

Morality of a Short Sale

It has been seen that a "short" sale of stock is not different from a sale of any other kind of property. For long years, selling for gain was forbidden by law,* but, as business is no longer considered immoral, a short sale is therefore not immoral. Half of all business is selling—the merchant sells in the hope of a profit, just as he buys in the hope of a profit; and it is immaterial, from any standpoint, whether the merchant bought first and sold afterward, or sold first and bought afterward.

Legality of a Short Sale

Short sales have for many years uniformly been held legal; there was a time in England when they were considered contrary to public interest, and there was a time in New York State when such an opinion also was held—but this opinion is no longer held by Legislature or Court. A curious coincidence is the fact that the first prohibition of short selling in England was by the passage, in 1734, of the Act known as Sir John Barnard's Act; while one of the leading decisions in this country, upholding short selling, is that, in 1907, by Judge Barnard, of the Circuit Court, District of Columbia, in which he said:

"A short sale is not a gambling operation; the testimony shows that on a short sale delivery of the stock is

*See page 40.

made and the purchase price paid. It may be speculative—it is speculative; but commercial transactions generally are more or less speculative, the speculative element varying mainly in degree."

These decisions, made 173 years apart, show the growth of education, on this little understood business operation. Free selling is as necessary to a true market as free buying—and as a matter of fact, "long" selling will depress a market quite as much, as "short" selling will—the "long" seller need not rebuy, the "short" seller must.

Dangers of a Short Sale

The wise short seller sells only well-known, fairly active, widely-held stocks; where closely-held stocks are sold short, there is the possibility of being unable to borrow, or to buy at a reasonable price, and the seasoned "short" studies his stock, before committing himself. He rarely sells a low-priced stock, or a new one; he generally sells one which has paid dividends, and which he thinks will possibly not pay its next dividend. The psychology of a "short's" mind is not part of our study, so a general reference to his usual procedure will be sufficient.

Necessity for a Short Interest

In his statement before the United States Senate Committee on Banking and Currency, in April, 1914, President Noble, of the Exchange, said:

"You gentlemen in the political world will appreciate that good government would be difficult if there were only one political party. If there were only a conservative party unopposed by a liberal or radical party, it would be difficult to get progress; if there were only a liberal or radical party, unopposed by a conservative party, there might be extreme legislation. The same thing is true of the speculative market."

If there were only buyers in a market, prices would go beyond all reason; those who had already bought would continue to hold on, fearful of letting go, lest they sell below the top notch; and those who wanted to buy, would bid stock to unwarranted prices. This is seen in every "bull" market; it is seen in every real estate "boom." At such a time, the short seller confers a favor on the community by offering stock at the going price, and trusting to the future to vindicate his judgment.

The "bear," or short-seller, often halts reckless speculation, and thereby confers a benefit on society. The merchant who sells, feeling he can buy at a profit is not condemned; why should the short-seller of stocks be?

The Opinion of Napoleon

An interesting story, much quoted, and possibly true, is told of Napoleon: He sent for his Minister of Finance, and said that in his opinion traders who were selling government securities short were traitors, and should be punished accordingly. He argued that their sales were a lack of belief in the soundness of the government, and desired measures taken to suppress them. Mollien, not so good a soldier as Napoleon, but a better financier, said:

> "These men are not the ones who determine the price; they are only expressing their opinion as to what it will be; if the credit of the State is maintained, they will be found to be wrong, and will suffer loss—for they must go into the market, to buy at the prevailing price."

Rumors

Short-selling of itself is as moral as any other act; the short-seller, however, is not in the same position as the "long" seller, even though both may have sold, believing a stock too high. The "long" seller

can afford to stand by, and watch the movement of the market; his interest is chiefly that of the observer, ready, it is true, to take up the stock again if the price looks low enough—but the master of his own actions. The short, however, being a compulsory buyer, is interested in seeing the market retreat further. He has two ways to facilitate this—by further selling, and by giving to others the impressions he himself has, as to the value of the stock. The latter is seldom used today; first, because it is against the law—drastic punishment follows upon the circulation of stories calculated to affect the stock market; and second, because "actions speak louder than words." The "short" is no bigger a fool than any other man—often not so big as the optimist who recklessly pays any price for a stock. He is compelled to look conditions in the face; if his judgment still seems good, he makes further sales; if it seems bad, he buys his stock in, and forgets his loss.

Short Sales on Margin

Short sales can never be said to be for "all cash." They are, therefore, always margin transactions. The matter of margin trading will not be considered here; but, the "short" has a little better of the "long" from the margin standpoint. The "long" must *pay* interest on the difference between the margin and the whole purchase price; the "short" usually *gets* interest on the amount of margin paid down; he however, must make margin payments, as called for, if the stock advances in price, just as the "long" does, if the stock drops. On a purchase and sale, covering a long period of time, interest is quite a feature; and this the short

escapes. However, dividends run in favor of the "long" and against the "short." When he borrows a stock, he obligates himself to return it to the lender, and meanwhile to pay the lender such dividends as are declared, until the stock is returned. If the stock ceases paying dividends, as the short probably hoped when he made his sale, he is spared this expense; but if they continue, his load is correspondingly heavier, by the amount of those dividends, and his margin decreased by that amount.

Corners

In closely-held stocks, "shorts" run great danger of being "cornered." A "corner" is a situation in which stocks sold short, cannot be borrowed, or cannot be bought back at reasonable figures, because others have bought and taken out of the market, all or nearly all of the floating supply of stock. It is almost impossible for much stock to be lending and the fact not be generally known, or at least surmised. To bring about a corner a large amount of capital and financial skill are required. Corners are seldom met; but are not to be lightly thought of. Every now and again, the "short" is obliged, while borrowing, to pay an extra charge for the stock loaned. This extra charge is known as a "premium." It is a matter of not great infrequency that a premium is exacted. A premium of only 1-64th for the day is equal to another 6% interest. It is safe to say that the way of the short is not altogether one of the smoothest. The history of our country is against him, and the trend of the present and future will not support his view. This is a land of increasing values; the Census tells

us that our national wealth doubled itself between 1900 and 1915, the increase being the enormous sum of $94,000,000,000. While some things failed, more were successful. The old Wall Street man will tell you that he never knew a consistent "short" to become well-to-do.

Unlimited Loss

A matter for serious thought by the short-seller is that his loss may be unlimited. The buyer of a full paid and non-assessable stock can lose no more than his investment—If the buyer's judgment has been poor, and his company goes into the hands of a receiver, his stock may be retired, and he lose the entire amount he paid for it. But the short seller may see the price of his stock advancing and advancing, and find himself in the position of those sellers of Northern Pacific in 1901, who, thinking the stock high, sold it around $150 a share, and found it later in the neighborhood of $1,000 a share—a loss of over six times the contract price. Such extremes are seldom met, however. The short usually has it in his power to "cover"—buy the stock and deliver it to the lender, and thus limit his loss.

Optimist and Pessimist

The buyer of a stock may be said to be an optimist—he believes prices will be higher; that this particular stock will have a greater value. The "short" may be said to be a pessimist—he believes the stock is too high, that the price must have a drop. A shrewd trader, however, is sometimes both optimist and pessimist within a

very short space of time; no good trader is a consistent "bull" or a consistent "bear." There is no such thing as a consistent "bull" or "bear" party—stock merchants change their mind about the value of stocks, just as any merchant changes his mind about the desirability of buying or not buying a certain class of goods. A change in news regarding general business conditions may produce hope, or caution. The trader should be a business man—and business men, no matter what their line of business, are governed by about the same general business principles.

Market Influence of a Short Sale

The chief complaint against short selling is that it wrongfully depresses the market. Does short selling, of itself, affect the market in any different manner than "long" selling? The theory of markets is that buying puts up a market and that selling puts it down; this is probably a sound theory. But it must not be overlooked that for every sale on the Exchange there has been a purchase—some one has bought when some one else has sold. Therefore, if a sale theoretically puts down a market, the relative purchase must theoretically put up the market, which, if both be true, would leave the market unaffected. The character of the buying and of the selling, however, makes the difference; the presence of an excess of buying orders raises the market, while an excess of selling orders depresses the market. A good broker can detect this difference—he has a sense of "feel," if not of knowledge; and the selection of a good broker is of importance in trading in stocks, as in trading in real estate, or other business.

Influence on Margin

The danger to the holder of stocks, on margin, by selling of any kind is that the market may retreat to a point where the margin must be replenished. Many traders make a practice of putting in "stops" against their commitments: that is, orders to sell at a price, in order to limit loss. Much selling will reduce a price, and if these "stop order" prices are reached, sales on account of the stops will begin, and further selling made necessary; thus the margin trader's position may be endangered. The rule, set down elsewhere, that the margin trader must at all times have a sufficient amount of reserve capital to make payments as required, is fundamental to successful trading, and ought to be followed, under all circumstances. Short selling cannot harm the well-protected long margin-trader in sound stocks—he can rest secure against such so-called "raids." Ample margin protection is a necessary market safeguard.

Lending Stock or Money

There seems no essential difference between the act of a broker in lending his customer's stock, and that of the banker who lends his depositor's money. The one holds stock, and the other money, in trust for, and subject to, the order of a client. The banker who lends the money, like the broker who lends the stock, is not required by law to have in hand, or to return on demand, the exact pieces of money or the exact piece of stock, received from the client; they are merely required to have in hand, or within their means of acquirement, money or stock, of the amount and kind

entrusted to them. The line between the business of banker and that of broker is exceedingly fine, and recent banking legislation in New York State makes the line still finer; the law puts the broker, under many conditions in the general classification of banker.

Investigation of Short Selling

Short selling has been the subject of investigation by national and other legislatures; prior to the English legislation, known as Sir John Barnard's Act, the English "corn laws" affected short selling of grain, and other food products; the law of 1827, passed in New York, and repealed in 1858; the Bank of England or Leeman Act, passed in 1864; the legislation by Germany in 1896; the Hatch Industrial Commission inquiry in this country, in 1898; the Pujo Committee's investigation in 1912, all bore upon this interesting question; the conclusion of this latest investigation, is shown by its report to Congress, in 1913, in which it said:

> "There seems no greater reason for prohibiting speculation for the fall than for the rise,"

meaning of course, that selling in the hope of buying back at a profit is as customary and as legitimate as buying in the hope of selling at a profit.

TOOLS AND TERMS OF WALL STREET

"Speed with accuracy; promptness in all things—this is the cornerstone of modern finance."—Work of Wall Street.

Tools of the "Street"

Without proper tools, no workman can produce proper results; the tools of Wall Street are eminently fitted for their purpose: The conduct of a vast business with the minimum of money; the same attention to and care for, business of the small and the great; the prompt, exact and honest execution of trusted orders; and the immediate giving out of truthful information with regard to transactions. The tools of the "Street" are money and checks, stocks and bonds; the telegraph, the telephone, the cable, the stock ticker, and the blackboard; market reports as put out by the news slips and the newspapers.

Money and Checks

No business operation can be conducted without money; yet it is strange how little of it is needed in the conduct of modern business. Its use is almost unknown in large transactions. In these it is displaced by the check, the draft, the promissory note, the bill-of-exchange. Elsewhere it is shown that on the ordinary day on the Exchange, with an average business of 600,000 shares, of a value of about $43,000,000, less than $1,300,000 in actual money is required to eventually pay for the business

of the day—all this through the use of checks and the clearing systems of the banks and of the Exchange.

Stocks and Bonds

Without stocks and bonds there would be no Exchange; but (and this is an almost overlooked fact) without stocks and bonds we would be set back in our calendar at least a thousand years; modern business would be impossible; we might almost say no business would be possible. The value of the invention of stocks and bonds cannot be computed. They are the most convenient, the safest, the most easily handled, the most readily transferred, the most quickly realized upon, form of property the world has ever seen. Stocks and bonds do not exist because there is an Exchange—if Exchanges were abolished by law, stocks and bonds would continue to exist, but would be traded in under conditions which would prove so bad as to compel the reestablishment of organized Exchanges.

Telephone, Telegraph, Cable, Ticker, Blackboard

The telegraph was invented in 1847, the cable in 1859, the ticker in 1867, the telephone in 1876; but the date of birth of the blackboard is unknown. The Exchange was in operation a half century before the telegraph was first used; and each of the inventions, as it appeared, seemed to usher in, not only a means of uniting the world with bands of electrical energy, but also a wider speculative era. Speculation always goes hand in hand with invention. No great inventive era has failed to be a correspondingly great speculative era. The

telephone, telegraph and cable bring orders to the Exchange; and later carry information as to the filling of those orders. So perfect have they become that an order can be sent from London to New York, be filled on the Exchange, and be reported in London, *within the space of* 3 *minutes.* Investors and speculators in all parts of the world trade upon the Exchange by cable, which has "put a girdle around the earth" in almost forty seconds. There are perhaps 650 telephones upon the floor of the Exchange, connecting with the offices of members; nearly 2,000 telegraph correspondents have been approved by the Exchange, having offices in every State of the Union. In times of peace, all of the great European cities have offices of members of the Exchange, and are in direct touch with its Floor. The ticker sends out, within a fraction of a minute, news of a sale upon the Exchange; and this news is within another fraction of a minute placed upon the blackboard in brokerage offices in nearly every city of any size within our forty-eight States. The intention of the Exchange is that the utmost publicity shall be given to operations upon its Floor. There are more than 1,500 stocks and bonds quoted on the ticker, requiring very minute and often arbitrary abbreviations. About 225 character are printed per minute, and in busy markets the tape is often several minutes behind the market. To prevent such delays, the Exchange is installing an additional ticker system, which will quote bonds, notices and other information, and thus enable the present system to keep abreast of the market. About 65,000 thousand characters are printed on the tape on a busy day.

Market Reports—Newspapers

In the financial district news of the market is not only sent out by the ticker, but also by news-tickers, which print items of any kind likely to have a bearing upon stock values. These are supplemented by news-sheets, published by the companies which control the news tickers, bearing the same or similar information to that put out on those tickers. News sheets are also published by other concerns. Twice a day, reports of the transactions upon the Exchange, taken from an Exchange ticker, are put out by a printing concern.* All the daily newspapers in New York publish in their various editions the market prices at the time of printing. Some of the papers run special Wall Street editions, with the entire list of transactions and price changes, but the customary form is that in which the opening (or first), the high, the low, and the last prices are shown—and these figures are published by every newspaper of any prominence within the United States. It has been estimated that at least one-tenth of newspaper matter refers to stock transactions and that at least one-third of all telegraphed matter relates to speculation—of course not all of it stock speculation.

Wall Street Terminology

Wall Street has a language of its own, a language that requires a dictionary† of many pages to fully mention and describe the terms used in newspaper reports and comment and in the Floor and office talk by brokers and customers. These

*The printers of this book.

†The best dictionary of Wall Street terms of which the writer knows is that by Irving Smith, a work of something like three hundred pages, containing hundreds of terms, lucidly explained. A smaller work is that by Wm. Harmon Black, "The Real Wall Street."

terms are of ancient lineage, some so old as to afford no record of their introduction into our language. Many of the terms in use in this country are direct importations from abroad. However, the foreign Exchanges, because of their different methods of doing business have other terms, unheard of in our market. The terms naturally group themselves into classes, and will be so referred to, but there is no intention of mentioning herein more than those which are most usually met in the daily press.

Floor Terms

The Exchange is never referred to as "on Change," that being a peculiarly English expression. It is known as the "Floor" or the "Board." Brokers on the Floor are known as "traders" or "room traders," who are acknowledged speculators solely, and who do no business for others; "commission" brokers or "$2 men" who do business only for fellow-members; "specialists," who handle only the stocks which are grouped at a particular post; "floor members," who only do business on the Floor for their own firms; and "odd lot men", who deal only in lots of less than 100 shares, and who take no commission orders except of their own firms. The brokers around a "post" are known as the "crowd," and "crowds" are called by the name of the stock being dealt in, such as the "Steel" crowd the "Reading" crowd, and so on. Members "execute" or fill orders, they send "reports" to their offices, they "compare" or confirm trades on the Floor, they "give out" to the specialist or the $2 man, or to some other broker, orders which they themselves cannot carry out, because they are busy with other orders in some other part of the

Exchange; or in an inactive stock which is to be sold at a limited price, they "stop the stock" with the specialist or any other broker, who thus agrees to take or supply it, as the case may be, when the price named is reached.

Classes of Stock

The stocks are known by generic terms, "rails" being the entire class of railroads; "industrials" being practically all the other stocks. The railroad stocks are subdivided into "coalers," which carry or mine coal as a principal business; "grangers" which run through the great grain-growing country; the "Goulds," the "Vanderbilts" and others, named after the founder of the system of which they are part; and "tractions" which are the street railways. The industrial stocks include the "steels," the "rubbers," the "telegraphs," the "miners." Stocks are known by short and familiar terms, such as "Can" for American Can Company; "Sugar" for American Sugar Refining Company; "Motors" for General Motor Company; "Erie," "St. Paul," "Central," "Union," and so on. Some stocks are known by nicknames, such as "Mop" for Missouri Pacific; "Nipper" for Northern Pacific; "Old Woman" (OW) for New York, Ontario & Western; "Katy" for Missouri, Kansas & Texas, and the like.

Common Terms

A "bull" is a believer in high prices* and therefore either buys (in which case he is "long") or advises buying; but a "bear" thinks prices too high, and acts and advises accordingly. He usually sells "short," that is, does not own the stock he sells, but borrows it for delivery. A "strong" market

*See note on page 219.

is one in which the prices are steady, with an upward tendency, but a "rising" market is one in which prices continue to advance. A "weak" market is one in which but little interest is being displayed, prices are fairly steady, but tending to fall; but a "falling" market is weaker than a "weak" market. The market "rallies" when prices go higher, after a fall; and it "reacts" when prices go down, after a rise. A "trader" or "professional" may be either a member on the Floor or a customer in an office. He usually buys and sells the same day, thus avoiding interest charges, preferring not to "carry anything over," or sells first and buys afterwards. He "scalps" the market, taking a very small profit every time he sees one—and often takes a loss instead. The "public" is the general investing and speculating public, usually the customers in the brokerage houses, whose failing is that they buy when others buy, and sell when others sell. They form the "lambs," the chief propensity of a lamb being to follow blindly where others lead. The "piker" is one who deals in a small way, and is ready to "put up a kick"; however, if he uses good judgment, he seldom makes a loss, because he rarely gets in "over his head." The "plunger" buys or sells in large amounts, taking great risks in the hope of big profits. A "welcher" is one who gets his broker to trust him, and then cheats him by letting the broker take a loss which he himself should take.

Kinds of Orders

The orders given are "open" or "market" orders, which direct the broker to fill the order as soon as he can, regardless of price; or they are "limited" orders in which the price is set. They are

"day" orders, "week" orders, good only for that day or during that week; or are "g. t. c." orders, good until canceled or countermanded; they are "stop" orders, to be carried into effect, if possible, when the price named is reached, at which time they become market orders, and must be filled as soon as may be, regardless of price. A "stopped stock" and a "stop" order are not the same thing. Transactions in "stopped" stock are private transactions, and cannot be printed on the ticker, while "stop" orders must be printed. "Scale" orders are orders to buy (or sell) at regular price intervals, as the market changes; they are given for the purpose of supporting the market or to discourage buying, as the case may be, and are customarily in the interest of "insiders."

Street Slang

"Whipsawed" means buying in the hope of a rise, but selling instead on a fall, then selling more, expecting a further fall, but being compelled to buy because the market goes up instead of down—getting "caught, coming and going." "Buying on a shoestring" means on very small margin. "Unloading" means selling out. "Running to cover" means quick buying when short, because of a sudden rise in price. "Coppering a tip" means to act just opposite to information received. "Insiders" are managers of a property, who are supposed to be dealing on advance information. Some of the most sensational failures in the Street have been by "insiders" who thought they knew all about a property and its market worth, but did not. "Getting hung up" or "hooked" is taking

on stocks just before a dull market, and being compelled to "carry" them for a long time. "Wiped out" means to have no reserve out of which to meet margin calls, resulting in the stock being sold out. "Pegging a stock" means that it is generally believed that it will gradually reach a given price, before reacting; and a "pegged" stock is usually a "bull" argument.

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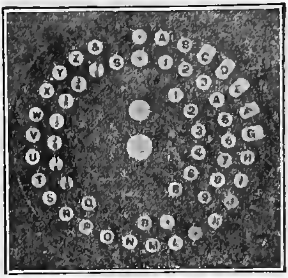
*The origin of the terms "Bulls" and "Bears" is unknown; but they probably arose from the fact that the original dealings in corn in England were conducted at the Bull Tavern, and the Bear Quay. At the latter, when ships were not at hand, prices proved low; farmers' therefore, began storing their crops at the Bull Tavern, until such time asships should arrive, entrusting their business to the proprietor of that tavern. Hence, low prices prevailed at the Bear Quay, and higher prices at the Bull Tavern.—From library of L. C. DeCoppet.—"The Percy Letters," published 1827.



KEYBOARD OF TICKER MECHANISM

In a busy market the tape is sometimes behind the market. But the prices to the broker's office are not sent to them ahead of those to the outside world; the rooms of the Exchange ticker adjoin those of the public ticker; and as the prices appear on the Exchange ticker on their way to the broker, they are copied upon the other ticker.

The bond ticker system, now being installed, should keep the reports abreast of the market.

CAUTIONS AND PRECAUTIONS

"They that make haste to be rich, shall fall into divers temptations."—Proverbs.

As to Speculation

Speculation has been shown to bear upon all classes of men; to be a part of all phases of enterprise; to affect the value of bank and insurance investments; to affect the man of wealth, of savings, or of merely a job. It has been shown to differ entirely from betting or any form of gambling; to be little if any different from investment; and to be, at least so far as its inherent elements are concerned, practically identical with business—which seems to be but a continued speculation. There appear to be but two kinds of speculation—first, that based on the prospect of profit without regard to earning power during the speculation, business coming under this classification; and second, that based partly on earning power and partly on hoped-for profit. The latter form of speculation seems to present opportunities for returns beyond those derivable from mortgages, or bank interest; and, while perhaps not so great as from business, does not require the sole attention, the expert knowledge, nor the amount of capital required by business.

Cautions and Precautions

The desirability of proper speculative-investment seems assured; engagement in it, however, should be subject to certain cautions and pre-

cautions. Most of these have been referred to in other parts of this work, but may well be collected and restated in a concise way; an added caution against over-speculation, foolish speculation, speculation in unknown securities, on the wrong basis, with insufficient capital and reserve, is always in place, and can well be given at this point.

Idle Money

Idle money is more idle than an idle man; with the man it means only *one* man not at work; but as actual cash performs the work of about twenty times its intrinsic value an idle dollar is equal to the idleness of twenty dollars. However, in keeping money busy, it should be employed to the best advantage.

The Best Advantage

With opportunities for investment-speculation in Liberty Bonds, railroad and other bonds, and in stocks of good history as to dividends, a return is possible, in excess of that from mere savings; and the savings-investment method, known as the partial-payment plan, presents phases for practically safe purchases which can well be inquired into.

A Ready Market

Such plans confine purchases to listed securities; a ready market is desirable, in case of necessity to sell; listed securities have a more ready market than unlisted securities; they form a basis for bank loans, so that money can usually be easily borrowed on them; information is generally more easily obtainable about a listed stock or bond than about an unlisted one; the Exchange requires

a statement from the Company at the time of listing, and frequent reports thereafter; in addition, the financial publications, such as *Moody's* and *Poor's Manuals*, the *Wall Street Journal*, *Commercial and Financial Chronicle*, and the like, carry information of value as to such stocks and bonds. The great outcry of 1900–01 against speculation was largely based on securities then known as Unlisted Securities; and the Hughes Commission's report of 1909 also bears extensively upon this kind of issues.

Worthless Securities

The losses of over $100,000,000 per annum, reported by the Postmaster General, as occurring through mail order frauds,* are by no means the extent of losses by worthless securities. Stocks of companies which never have started—of companies which hold no title to the land or the mines they speak of; of companies which publish no facts as to their business—these are poor purchases.

Your Broker

For years, one of the biggest bucket-shops advertised "Greater care should be shown in selecting your broker than in selecting your stock," which was rich, coming from that quarter, but not the whole truth. Great care should be shown as to both broker and stock. The writer knows of outside brokers who never send a customer the stock he has ordered and paid for; who persuade him to buy something else, generally unknown but highly recommended, through which he loses his money. Inquiry of the Exchange authorities will always procure a list of its members, with offices in the vicinity of the inquirer; there would seem no reason,

*See page 243.

therefore, to transact business through an unknown broker.

Bucketshops

There is certainly no reason for doing business with or through a bucketshop. Their methods are described fully at another place herein, with the fact that the customer never gets a profit if the keeper can prevent it. Such concerns have made the plea that they provide a place for the small buyer; but it has already been shown that the small buyer is as well taken care of on the Exchange as the big buyer—and, in addition, is treated honestly, which is not the case in the bucketshop.

Advertisements

It is always safe to say: "Don't believe all you read." Some of the higher class magazines and dailies discriminate as to the advertisements they carry, and investigate the character of the advertiser; but generally speaking, that is not the case. The motto "Prove all things; hold fast that which is good" applies to advertisements of securities as well as to other matters. The Exchange carefully supervises advertisements by its members, and misstatements therein will subject them to discipline.

Duties of Stock and Bond Holders

The owner of a property can usually be depended on to take an interest in how it is run; yet stockholders often neglect this duty. Stockholders are "owners;" bondholders are holders of a mortgage—and holders of a mortgage should display an interest in the property on which their money is loaned. Such an interest, by bond and stockholders, should tend to produce a character

of corporate management about which no complaint could be made.

Tips The buying of securities on tips given by irresponsible persons, and bandied from mouth to mouth is not a show of due caution. One should be as careful whose advice he takes as to buying a stock as he would take in going to law or going into business. Tipsters have a habit of telling one set of customers to buy and another set to sell—thereby being right with at least half of them all the time, and collecting from both. There is no such thing as "absolute certainty" as to making money; if there were, the tipster would borrow money, buy the stock, and get the profit for himself.

Advice Advice is the one thing in this world most easily and cheaply obtained. It would seem a good plan to get all the advice possible from such good sources as seem practicable; but one's own judgment should also be used. Advice from office boys, or from salesmen interested only in the commission, may sometimes be the best, but more often is worthless. Ask yourself, "Why does he tell me that?" Inquiry into the conditions surrounding the company whose stock is thought of, and into general market conditions as well, may save entering upon a poor investment.

Overtrading The dangers of overtrading are shown elsewhere herein;* and need not be more than alluded to here. The broker who will persuade his customer to buy or to sell to an extent which leaves him without

*See Chapter on "Business and Speculation."

reserve is to be avoided—his advice treated with great caution.

Market Extremes

Market extremes are to be avoided; financial writers advise against buying when the market has just had a large rise, or selling when it has had a great decline. While the man does not live who can fix a definite rule as to when to buy or when to sell, that attributed to Baron Rothschild seems to be as good as any: "Buy when others sell; sell when others buy." Buying when others sell, however, calls for extra caution, lest the buying be found to be in a company whose finances are at a low ebb, and marked for failure.

Advances or Declines

The market cannot always advance—values cannot always increase; the market will also react—values decrease. Engagers should have in mind that "what has gone up may also come down" and the reverse; and make provision to meet whatever market changes may occur. Any purchase will be affected by a market decline; but the purchaser of a sound security on margin, with reserve, will be in a strong position, despite the declines.

Reserve not Enough

Much stress has been laid upon proper reserve: but reserve, upon an unsound purchase, will not be an insurance against loss; soundness of purchase is elemental, basic. It would seem better to confine one's purchases to "time-tried" securities, with good outlook, even on a smaller return, than to take a greater chance for profit,

with lessened prospect for success, and greater prospect of loss.

Risk

Risk your own means, not those of others. Never risk the money of your friend or trust moneys. Be sure that it will require a clear mind and conscience to speculate successfully, or to conduct any other operation of life. Take no foolish risks; the one who feels he can afford to lose on a "flyer" very frequently finds he has done so. Presuming on paper profits to make further purchases is often another foolish risk. Make of speculation a matter of thought, as with any other business enterprise.

Discretionary Accounts

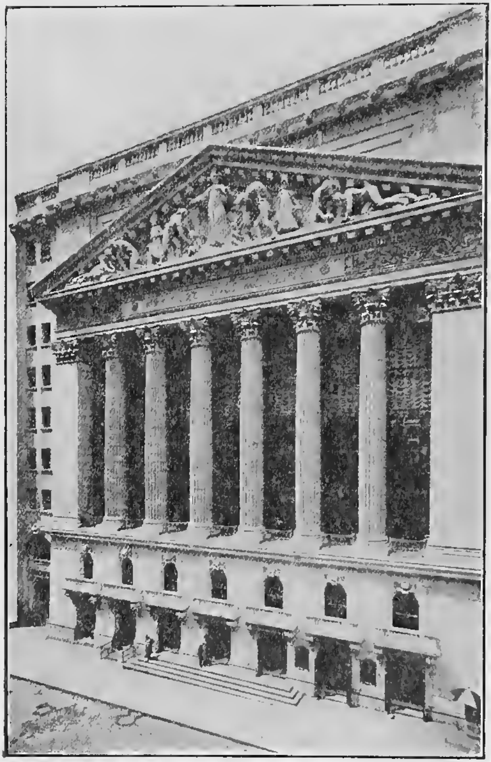
Do not permit some one to run an account for you, because to do so you must give him written authority; and written authority of such a nature is often irrevocable until after it is too late. Good brokers will not take such authority—and you will not want to deal with any other kind.

Blind Pools

Do not become a partner in a blind pool—those entering such pools are legally partners with the other members of the pool; and partnership with unknown persons and in matters over which you have no control, is as easy a way to lose one's money as was ever devised.

Success of Others

Do not allow stories of the success of others to turn your head; remember your own limitations as to capital, experience, judgment, and the like, and be governed by them.



WHAT IS THE STOCK EXCHANGE?

"The New York Stock Exchange is the primary market in the United States, and as such is a vital part of the financial system." "The business transacted by its members comes to them from almost every corner of the civilized world. Its hallmark as to the genuineness of a certificate of interest passes current everywhere, and is *rightfully supervised with jealous care.*" (From report of House of Representatives Committee, February, 1913.)

Exchanging

Exchanging is the act of passing to a person something which he desires, and receiving from him in return something which you desire. The business on a Stock Exchange consists of the exchanging of stocks for money, and of money for stocks—desirable both in themselves, and for the benefits to be derived from them; the seller of a stock thinks the money more desirable than the stock, while the buyer thinks the stock more desirable than the money.

Fluctuating Values

Such exchanges are not always at the same price, although the stocks passed may be intrinsically of the same value; these variations in price are called fluctuations, and these fluctuations often excite surprise, and sometimes indignation; yet anyone familiar with any sale knows that when several articles of a kind, although identical, are offered at a public sale they rarely bring the

same price, and that no surprise is excited thereby; why it should be in the case of fluctuations in stock values, is difficult to understand; such changes in value give rise to the charge that buying of stock is gambling, especially because they occur rapidly; such is, of course, not the case, as is shown elsewhere herein.

Barometer*

The eminent economist, Conant, has called the Stock Exchange a barometer; the chief use of a barometer is to foretell weather changes, the rising barometer forecasting fair weather, the falling barometer forecasting storms. If the stock market does that for business, it is indispensable. The careful student of the barometer knows when to sail, which way to head; the student of the stock market uses it as a business guide.

Market Reports

When one looks at a weather map he finds lines with arrows on them, figures indicating the direction and pressure of the wind, the state of the thermometer and amount of snow or rain at various points, all not easy of comprehension, but understandable by aid of the printed footnotes; the student of a market report may think it difficult of comprehension, but it contains indications as to the direction and pressure of money demands, the state of foreign and domestic politics, the conditions of business, the amount of success and disaster, for the whole world.

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*Alphonse Courtois, fils, in his "Traite des operations de Bourse et de Change" (Paris, 1901), says:

"The Exchanges lessen the errors of human folly."

Telling the Truth

The wise mariner trusts his barometer; the wise business man his market reports. When business is overwide, speculation over-extended, when everyone is rushing into something which has not had full consideration, when confidence is given to anyone and to anything, the warning comes from the stock market. As the *New York Evening Post* has said: "It is the stock market which at moments of popular delirium tells the truth."

Purpose of an Exchange

The House of Representatives Committee gave, as the business of the Stock Exchange, "To furnish the widest possible market for securities, and to register with greater definiteness their current value." The more readily these operations are conducted, the greater the value of an exchange.

What is the Exchange?

The expression "Stock-Exchange" has a variety of meanings. The New York Stock Exchange says of itself, that it is a voluntary, unincorporated association, without capital, that it does no business but that its objects* are (a) the furnishing of "exchange rooms and other facilities where its members can properly carry on their business as brokers;" and (b) "the inculcation of just and equitable principles of trade and business."

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* "The Exchange faithfully carries these objects into effect; no other financial institution or corporation is better managed; no serious criticism can be made of the Exchange, which insists upon honorable dealings between its members and between its members and their customers."—S. S. Pratt.—Work of Wall Street.

The opinion of the Chamber of Commerce, composed of the leading citizens of New York City, is as follows: This exchange is one of the greatest security markets in the world. Transactions on its floor are given the widest publicity. The members are liable to instant discipline if they violate the code of honorable conduct which they themselves have created. As a result its record of members' transactions is accepted without question throughout the world.

Viewed from Four Standpoints

The Exchange provides (*a*) "business rooms and facilities" and (*b*) "high standards." The business done is the business of the *members;* but it is done under the rules of and subject to the supervision of the association, in accordance with the "just and equitable principles," above referred to. We accordingly see that the Stock Exchange can be considered as: 1st, an Association; 2d, a Place of Business; 3d, the Business done at that Place; and 4th, as a Moral Force.

Incorporation

The Exchange is unincorporated; at different times demands for its incorporation have been made, and will again be made, by those who have not investigated the advantages to the public which flow from its non-incorporation. These demands in the past have resulted, and may again in the future result, in legislative inquiries; the history of those of the past, which should be a guide to those of the future, are considered elsewhere herein; however, we can here quote the statement of the Chairman of the Hughes Commission, Horace White:

> "Under existing conditions, the Exchange is a society—a voluntary society. Its decrees are executed instantly, and the fact that punishment imposed for wrong-doing is certain to follow without delay is the most powerful deterrent that can be held over a member. Expulsion from the Exchange practically deprives a man of his vocation; but if he could appeal to the courts and raise a cloud of dust, postponing the decision for two or three years until people have forgotten the case (and when, moreover, the final decision rests in the hands of lawyers instead of financiers), the effectiveness of the discipline is very much impaired."

THE ASSOCIATION.

"A stock exchange is a market or meeting place controlled by rules on which only members are permitted to deal with one another on their own behalf, or for their customers, where securities of corporations are bought and sold.

"Manifestly, a security privileged to be bought and sold on such an Exchange obtains a wider market and a more definite current value than one which is not."—House of Representatives Committee.

Members and Management

There are eleven hundred members of the Exchange of whom perhaps 200 reside outside New York City. The management of the Exchange is in the hands of a Governing Committee of forty-two, of whom the President and Treasurer are elected annually, leaving 40 others, of whom ten are elected annually; so that in two years the control of the Governing Committee can be changed, and a complete change in personnel take place in four years. As a matter of fact, continuous service for many years has been the rule.

Governing Committee—Its Powers

The Governing Committee* organizes, at its first meeting after an annual election, elects a Vice-President, and appoints out of its membership certain standing committees, which carry on the business of the Exchange.

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*"Governors are paid $5 for each meeting they attend, but the service they perform is really one of love. Men who could command high salaries as officers of corporations practically give their abilities and a large share of their time to the proper administration of the affairs of the institution."—Work of Wall Street.

The powers of the Governing Committee are numerous and far-reaching; "it has original and supervisory jurisdiction over any and all subjects and matters referred to" the Standing Committees; it may appoint Special Committees if desirable;* can "direct or control their actions or proceedings at any stage thereof," controls the finances of the Exchange; tries all charges against members, and punishes the guilty; and is "vested with all other powers necessary for the Government of the Exchange, the regulation of the business conduct of its members, and the promotion of its welfare, objects and purposes." It has power to examine the books of members, or to cause them to be examined by a committee; two of the standing committees have that power, by reason of the Constitution, but it can also be delegated to a special committee should one appear to be desirable.

Standing Committees

The standing committees are thirteen in number, with a wide scope of duties and powers:

1. Committee of Arrangements: This Committee conducts the building of the Exchange, purchases supplies, employs the help, supervises the business upon the Floor of the Exchange; enforces rules as to conduct of business; decides question of bids and offers; controls wire connections with the Exchange and of members with correspondents. It has certain powers of punishment.

2. Committee on Admissions: This Committee passes upon applications for membership, for reinstatement, and upon claims against memberships.

3. Arbitration Committee: This Committee decides matters of difference between members or between members and non-members, relating to contracts made under the rules of the Exchange.

*An important Special Committee is the Committee on Library, which maintains a complete statistical bureau and library of financial works, and cooperates with individuals, schools and colleges seeking economic information, and through whom visits of students to the Exchange are arranged.

4. Committee on Business Conduct: This Committee keeps in touch with the course of prices, with the view of determining whether improper transactions have been resorted to; and inquires into matters relating to the conduct of customers' accounts.

5. Committee on Clearing-House: This Committee conducts the clearing-house of the Exchange.

6. Committee on Commissions: This Committee enforces the rules regarding commissions, partnerships, and branch offices.

7. Committee on Constitution: To this Committee are referred all proposed changes in the organic law of the Exchange.

8. Finance Committee: This Committee prepares the annual budget, handles the money of the Exchange, directs its payments, and examines the accounts of the Exchange.

9. Committee on Insolvencies: This Committee is charged with ascertaining the cause of failures of members.

10. Law Committee: This Committee is the President's cabinet, whenever he so requests; it also considers questions of law affecting the Exchange, and matters pertaining to the relation of the Exchange to other bodies.

11. Committee on Securities: This Committee's duties have to do with fixing days upon which contracts are to be settled, and with what is a proper delivery.

12. Committee on Quotations: This Committee decides which nonmembers shall receive the quotations made upon the floor of the Exchange.

13. Committee on Stock List: This Committee examines into and reports upon applications of companies who seek to have their securities sold upon the Exchange.

Other Committees

There are two committees, not appointed by the Governing Committee, but elected directly by the membership—the Nominating Committee, and the Trustees of the Gratuity Fund—one suggesting candidates for the elective offices; the other conducting the death-assessment feature of the Exchange.

Membership

The House of Representatives Committee said: "Membership in such an institution should be an office of distinction and public usefulness." To be eligible to membership the applicant must be a citizen of the United States,* be of high character;† have secured the agreement of a member to retire in his favor; be sponsored by two members who have known him at least two years; be in good health; free from debt; solvent; free from judgments; if engaged in lawsuits, must explain their nature; must present a written statement, as to date of birth, place of birth, and business career; and letters from at least three persons of standing, testifying as to his integrity; if unable to pay for the membership with his own means, the funds for the purpose must be a free gift to the applicant and released, otherwise he would not be free from debt—and he must agree not to allow the gift to become a debt; he should have some capital; and must receive at least ten favorable votes of the Committee on Admissions.

A membership belongs to a member, and not to his firm.

Certificate of Membership

Being unincorporated, no certificate of stock is given a member; instead, he merely receives a letter from the Secretary, stating: "I take pleasure in informing you that you were this day elected a member of the Exchange."

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*He must be at least 21 years old. No other age limit has ever been fixed. Women have never been admitted to membership but have been partners of members.

†"Something more than wealth is required of the applicant; he must be of good business reputation, and must have no alliances that would bring discredit on the Exchange."

"In other words, personal character is a valuable asset in Wall Street. A man's credit in the Exchange and in the banks depends largely upon it." —"Work of Wall Street."

Prices of Memberships

In the past twenty years, prices of memberships have varied nearly seventy-five thousand dollars; it has only been since 1900 that they have been fairly stable in value; but even during the period since then they have varied over forty thousand dollars in price. The membership is an asset of great worth; its going price is not so important; it entitles a member to a commission rate for his business which makes a membership look very cheap to a person doing a fair speculative business. At the average price of say $50,000, with money at five per cent. the interest cost is $2,500; the annual dues of $100 are negligible. A speculator who buys and sells but 100 shares a day, has a commission bill of $7,500 for the year, or three times the interest on the average price of a "seat."

"Seats"

There are no "seats" in the Exchange; in former times, when business was less in volume, and memberships fewer, the brokers gathered about desks at which chairs were placed, giving rise to the term "seat". The active membership upon the Floor will average seven hundred, with seating capacity for perhaps not one-third of that number.

Selling a Membership

When a member determines to retire from the Exchange, he usually consults the Secretary, and a buyer is found; the proposed sale is subject to the approval of the newcomer by the Committee on Admissions; the price to be paid by the newcomer upon election, is the property of the outgoer, less such claims as the Committee may allow.

Death of a Member

On the death of a member, all other members pay $10 each, out of which $10,000 is paid to the family of the deceased, as a free gift, not part of his estate, and not subject to alienation. The interest of deceased in and to any property of the Exchange ceases; if his firm have no other Exchange member, they become non-members; any business for them, and for the account of deceased or his estate is charged the commission charged to non-members.

Officers of the Exchange

The officers of the Exchange are the members of the Governing Committee, the President, the Treasurer, and the Secretary. The President is the executive head; the Treasurer is the receiving and disbursing officer; both serve without salary. The Secretary is the operating head of the Exchange, receiving orders from the various Committees, promulgating their decisions, conducting their correspondence, keeping their records, doing innumerable things pertaining to the business of the Exchange; he must be familiar with its rules and history, and the reasons actuating those rules; and is, in fact, a sort of general encyclopedia to members, their partners, their clerks, and in some part to the speculating public.

Privileges of Membership

The privileges of membership practically consist of but two things—1st. Having one's business done at member's rates, or doing it oneself free of commission; 2nd. Participation in the death benefit. The commission rates to non-

members are based on par value of bonds, and on selling price of stocks. Stocks selling above $10 per share are charged at 12½ cents per share; those under $10 per share, 6¼ cents per share. The commission on bonds is $12.50 per face value of $10,000 (one-eighth of 1%); certain bonds, such as government, state and city bonds, and those which mature in less than five years, may be handled at a less rate.

Commissions

The business done for a member, or done for a member's firm as a firm, by another member or firm in the Exchange, are at a commission rate below that charged to a non-member; but the personal business of a non-member partner is at non-member's rates—he pays as much as any non-member would. Of course, through a partner's participation in the profits of a firm, he receives indirectly a reduced commission; but any arrangement of division of profits by which a partner's interest in the profits would vary according to his personal business would be a violation of the commission law.

Violation of Commission Law

Violation of the commission law of the Exchange is a serious offense—it is a peculiarly insidious form of dishonesty. The member has given his word to observe the law; violating his word is dishonest; beyond that, the Exchange feels that a member who breaks faith with his fellow-member will do so with his customer; the Interstate Commerce Law, for instance, forbids rebates of freight rates as dishonest; Exchange commission rates have been declared by a Congressional Committee to be eminently reasonable.

Indeed, as compared with commissions charged in other lines of business, they are remarkably so.*

Partners* Members may take one or more partners, persons of good standing. The Governing Committee may dissolve, and has sometimes dissolved, undesirable partnerships; in one case, earning thereby a continued newspaper notoriety. A member is responsible to the Exchange for the acts of his partner; the common law makes him responsible solely for his financial acts, but the Exchange law is broader, and the accountability of a member much heavier than that fixed by a court. Any act of a partner which would bring the firm or the Exchange into disrepute must be accounted for by the member.

Special Partners—Women Special Partnerships are permitted; the common law requires that the amount of special capital shall be advertised for a stated period. The Exchange classifies as a non-member firm, one in which the only Exchange member is a special partner. Women have been partners in Exchange firms—some general, some special; but such participation is most uncommon.

Sole Attention to Exchange Business Partners in Exchange firms must give up participation in other firms; "no man can serve two masters"; and the standing of an Exchange firm must not be involved with the risks of another business. No mem-

*"As regards the rates of Commission enforced by the Exchange your Committee believes the present rate to be reasonable (except as to stocks say of $25 or less in value) and that the Exchange should be protected by law against a kind of competition which would lower the service and threaten the responsibility of members."—House of Representatives Committee, February, 1913.

*The partners of members of the Exchange have formed an association, known as the Association of Stock Exchange Firms. Its objects are stated to be "to promote more friendly relations among its members and to urge the maintenance of high standards and just principles of business."

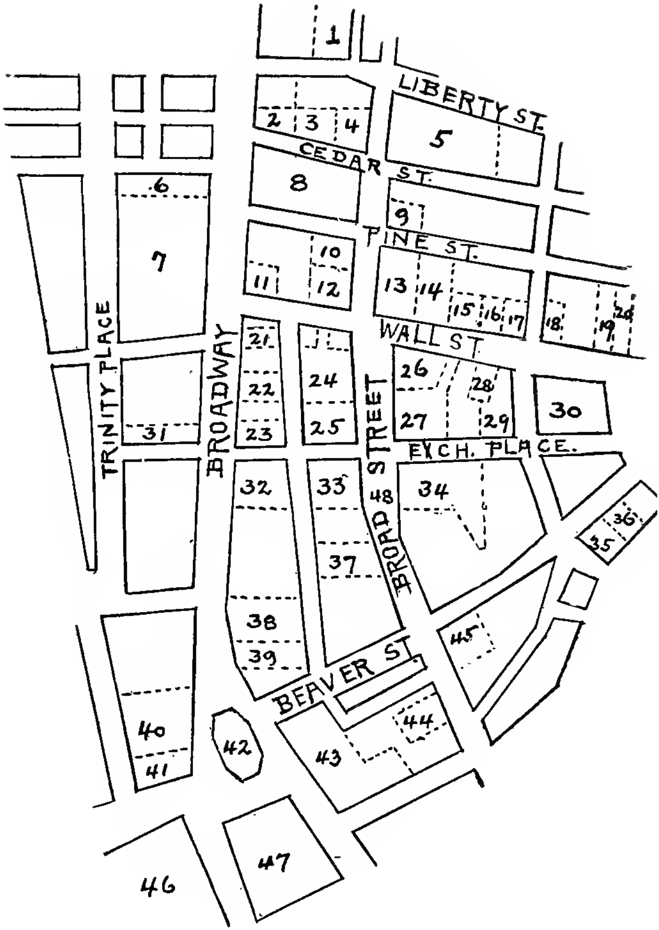
ber of the Exchange or his partner can engage in any business other than that of his firm.

Corporations Corporations or institutions are not members of the Exchange, and are not represented thereon. Exchange membership is a matter of personality, and corporations are not, in that sense, persons.

Agreement by Members On entering the association, members agree to abide by the adopted rules, and such as may thereafter be adopted in accordance with those rules; these are explicit, requiring high business honor; and but few derelictions from them have occurred. The ratio of honesty to dishonesty will bear comparison with any line of business.

Condensed History The Exchange dates from 1792, when a group of brokers, in order to secure honest dealings, determined to transact business only with each other. In 1817, a formal constitution was adopted; rooms were secured and, later, property purchased; additions were made as business required; the present building, begun in 1901, was occupied on April 23, 1903.

Branch Offices Members are permitted to establish branch offices, where approved by the Committee on Commissions. These are very carefully supervised, under strict rules as to management, location, manner of conducting business, etc. There are perhaps 500 in all, at the present time; they are in direct telegraph touch with the main office of the firm which establishes them, the firm being responsible in every way for their operation. They have been a means of providing a wide market, and for the broad dissemination of market information.



MAP OF WALL STREET DISTRICT

See Key, on Page 248.

THE PLACE OF BUSINESS

"There is a tendency on the part of the public to consider Wall Street and the New York Stock Exchange as one and the same thing. This is an error, arising from their location."—From report of Hughes Commission, 1909.

Location Exchange

The New York Stock Exchange building stands in approximately the center of the "Wall Street district." It is surrounded by great buildings sometimes housing enterprises of the greatest magnitude and standing, and sometimes occupied by promotions of none too solid a nature. The Exchange has no relation to or control over any of these, although it is often associated with them in the public mind, and occasionally in the press. The report of the Postmaster General of the United States for 1912, already referred to, gives an idea of how great a business is done by fraudulent stock promotions—mentioning two thousand such concerns, and showing losses of about $100,000,000 per annum to buyers of stocks, *not one share of which was listed on the Exchange.**

Character of Building

The Exchange building is of the purest Grecian architecture, simple in its beauty. It is built of selected Georgia granite, is 140 feet front, by 155 feet deep; its height is 123 feet; the statuary

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*The District Attorney of New York County has recently begun a campaign for the elimination of this undesirable and dishonest element from the financial district, thus aiding the efforts of the Exchange to prevent unscrupulous promoters and brokerage concerns from bringing disrepute on that district.

The Exchange recently (January, 1919) joined in the movement against stock swindlers, inaugurated by the Secretary of the Treasury and the Capital Issues Committee.

within the pediment is said to be as fine as anything this country affords, the intent of the sculptor* being to convey the idea of

> "Integrity, surrounded by the fruits of farm and factory, its influence extending from shore to shore."

The assessed valuation of land and building in 1917 was $5,200,000, the tax paid upon it being just under $110,000. Two offices are occupied by telegraph and cable companies. The vaults of the Stock Exchange Safe Deposit Company, located on the floor below the street level, are the largest and best protected safe-deposit vaults in the world.

The Floor

Entrance to the Exchange is by Broad Street, Wall Street, New Street, and through the Commercial Cable Building, in which the Exchange uses a room for telephone, messenger and other purposes. The Exchange floor is 17 feet above the sidewalk. The Exchange room is 79 feet high. Above the Exchange room are the executive offices, and Governors' and committee rooms. The trading room of the Exchange is about 120 feet long by 150 deep.

Trading Posts

Reference to the floor plan will show 20 trading posts, arranged in four rows. The upper part of each post† has twelve faces, with provision for two or more stocks on each face, the name of the stocks, their capitalization, information as to dividend dates, etc., being shown; also bulletins, giving the course of prices for some days past; in addition there are indicators, to show

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*J. Q. A. Ward. †See cut on page 228.

the price of the last sale of the day of the particular stock, so that a broker can see at a glance what that price is. The brokers at a post are called "the crowd." Trading in the stocks located at a post *must be* conducted at that post, openly in the crowd. Bonds are bought and sold at the northeast corner of the Floor. Here are arranged the telephones of bond brokers, desks at which clerks of the Exchange are stationed to give information regarding bonds, and indicator boards to show the course of the market The walls are faced with the finest American white marble from floor to ceiling, with columns at appropriate points, surmounted by gilded capitals; the ceiling is beautifully, though simply decorated.

Annunciators On the east and west walls are galleries; on the north and south walls are immense annunciator boards, each occupying about 2,000 square feet of surface. These boards work in unison, and seem to open and shut their 1,100 eyes as the numbers appear and disappear. Each member of the Exchange is given a number, and it is a great convenience for doing business upon the Floor, being connected with the telephone booth of the member.

Telephones Beneath the galleries are located some 700 telephone spaces, arranged in rows, the lines leading to a model central on a lower floor, and thence to members' offices, over which messages are sent to and from the Floor. Clerks of members receive and send orders, reports of sales, quotations, or the countless other things necessary to keep the business properly going; these men are alert, educated

in this special business, some of whom, now and again, become members of the Exchange.

Connecting the telephone sections with the trading posts are pneumatic tube lines; by these lines, a message can be sent to the farthest post, a distance of say 150 feet, in about five seconds.

Foreign Business

Before the outbreak of the European War a Foreign Cable Department was in use to receive and send messages from and to the various European centers, pneumatic tubes being connected with the cable companies. So close has been the connection between New York and foreign markets, that a message from the Floor has been sent to London, stock purchased there, and the report received back upon the Floor, in less than *three minutes*. The benefit of these operations as affecting international money movements is discussed under the heading "Money Used in Speculation." It will be seen that every facility has been provided for the prompt carrying out of a customer's instructions, and that he can be in instant and constant touch with the market if he desires.

Quotations

Upon the Floor are four telegraph stands midway between the posts. On each is an ordinary Morse telegraph instrument, connected directly with the ticker printing machinery on another floor of the Exchange building. Reporters gather news of sales, and bid and offered prices, which is done so expeditiously that almost instantaneously with the making of a sale, the news appears upon tickers throughout the City, and is sent to other cities, by the general telegraph companies and over the lines leased by

members for the purpose. The Exchange is the only great market in the world which, as soon as a transaction is made, sends out news of the sale and the price at which it was made. On none of the great foreign exchanges is this done; their system would not be tolerated in this country.

What is Dealt in

The par value of the stocks and bonds listed upon the Exchange is approximately $40,000,000,000* and includes the issues of the great railroad and industrial corporations; street railway systems; mining companies; other business enterprises; bonds of American cities, States, and the general Government, with many of foreign cities and governments.

Admission to Floor

Only members of the Exchange, their telephone clerks, officers of the Exchange and Floor employees are permitted on the Floor. On a busy day there are perhaps 1,800 to 2,000 persons on the Floor and the space is much congested. The recent introduction of pneumatic transmission of orders has, however, much relieved this situation.

*Not including Liberty Bonds.

NEW YORK STOCK EXCHANGE

(Key to Map of Wall Street, Page 242)

1. Chamber of Commerce.
2. American Exchange National Bank.
3. Banks' Clearing House.
4. Bank of Commerce.
5. Mutual Life Insurance Company.
6. Trinity Building.
7. Trinity Church and Yard.
8. Equitable Life Insurance Company.
9. Fourth National Bank.
10. Hanover National Bank.
11. First National Bank.
12. Bankers Trust Company.
13. United States Sub-Treasury.
14. United States Assay Office.
15. Manhattan Bank.
16. Merchants National Bank.
17. Bank of America.
18. Bank of New York.
19. Central Trust Company.
20. New York Life Insurance & Trust Company.
21. Union Trust Company.
22. Manhattan Life Insurance Company.
23. Knickerbocker Trust Company
24. Stock Exchange.
25. New York Trust Company.
26. J. P. Morgan & Company.
27. Mills Building.
28. United States Trust Company.
29. Atlantic Mutual Life Building.
30. National City Bank.
31. Chase National Bank.
32. Astor Court Building.
33. Johnston Building.
34. Broad Exchange Building
35. Cotton Exchange.
36. Coffee Exchange.
37. Edison Building.
38. Standard Oil Building.
39. Seaboard National Bank.
40. Bowling Green Building.
41. Washington Building.
42. Bowling Green.
43. Produce Exchange.
44. Maritime Exchange.
45. Consolidated Exchange
46. Battery Park.
47. United States Custom House.
48. Curb Market.

THE BUSINESS DONE

"The exchanges balance like the governor of an engine the otherwise erratic course of prices. They focus intelligence from all lands and the prospects for the whole year by bringing together minds trained to weigh such intelligence and to forecast the prospects."
—Judge Grosscup, United States Circuit Court.

"What are these boards of trade? They are merely the aggregation of merchants who meet in a room to collect the information necessary to enable every man to trade on an equal footing."—Senator (now Chief Justice) White, U. S. Senate, 1892.

Widespread Business

As previously stated, the membership of the Exchange is 1,100, of whom perhaps 200 reside outside New York City; there are perhaps 5,000 partners of members. Members are permitted to have branch offices and "wire correspondents," and the business therefore comes from a very wide territory. Branch offices exist in every important city, and in nearly every State of the Union, and also in the more important European centers—in Maine and California; in Minnesota and Louisiana; in London, Paris, Berlin, Amsterdam, and other of the world's financial centers; and from these sources comes the large volume of business done upon the Floor.

The Primary Market

In its report to the House of Repretatives in Washington, in February, 1913, the "Money Trust" Committee, said:

"The New York Stock Exchange is the primary market in the United States, and as such is a vital part of the financial system.

"It is the market place of the entire country and of

foreign countries for securities, and the only market place in the United States where money is loaned and borrowed.

"The business transacted by its members comes to them from almost every corner of the civilized world. Its hallmark as to the genuineness of a certificate of interest passes current everywhere and is rightfully supervised with jealous care."

One Day's Business

On the ordinary day, persons in "almost every corner of the civilized world," as the Government report declares, sell on the Exchange somewhere near $45,000,000 worth of securities, and deliver them the next day, being paid therefor on delivery. While this is an enormous sum of money, it is less than 1% of the bank resources in New York City, and less than 1/10th of 1% of those of the country; so that, enormous as it is, it is by no means the factor in making money tight or scarce, that is often asserted; and, as is pointed out elsewhere,* this sum of money is marvellously reduced by the operations of the clearing systems operated by the New York banks and by the Exchange.

Source Supervised

Although members are permitted to have "wire" connections, such connections must be registered. It is thus sought to permit business relations only with firms and persons who are morally and financially desirable. The Exchange has, since 1878, directly spent thousands of dollars, in opposing bucket shops, and its members have refused, directly and indirectly, hundreds of thousands annually from this and other undesirable sources. The appreciation by the public and by governmental authorities of the immoral nature of bucket-shopping has been slow—its essential gambling

*See chapter on "Money Used in Speculation," page 181 et seq.

nature has been overlooked; the immense losses caused to innocent purchasers have not been understood; and the odium cast thereby on legitimate speculation has been undeserved. The Exchange has, for 40 years, fought this form of evil.

A Sample Purchase

Let us follow a transaction on the Floor:

A customer gives his broker (in person, by letter, or by telegram) an order to buy a certain stock; the office, after properly entering the order on its books, telephones it to the firm's telephone space on the Exchange; the firm's clerk on the Exchange, if he knows at what post his broker is located, sends the order in to the broker on one of the firm's slips; if he does not know where his broker is, he pushes the signal button which puts up the member's number on the annunciator boards, and the member sends in for the order; or, if the broker cannot be found, or is known to be away, the order is sent in to a "$2-man." Such an order is written out on a form bearing the firm's name and reads as follows:

Buy 100..........at. ......

The name of the stock and the price are filled in. The broker at once proceeds to the proper post, and endeavors to buy the stock.

Public Purchasing

Purchases and sales of a stock must be made at the post at which the particular stock is located; to this post *must* go every broker who has an order to buy or sell *that* stock; each is anxious to do the best for his customer—a dissatisfied customer leaves a broker; and a broker must keep

his customers in order to earn commissions on which to live. The broker is bound by Stock Exchange rules and by law to do as well for his customer as he can. If he can buy for less than the stated price, or sell for more, he must do so; if, however, he neglects his order, and fails to make the trade as directed when opportunity affords, he may be held for damages, either before the Arbitration Committee, or at law. Here are represented customers from "every corner of the civilized world," and the broker must be alert.

A Great Department Store

The Exchange is like a department store or markethouse; every town has its markethouses and department stores, with various counters for the various classes of goods: Its meat counter; its bread counter; its fish, vegetable and other counters; its hardware counter; its tea and coffee counter—the posts on the Floor taking the place of the counters or stalls. On the Exchange the stocks of certain meat companies are bought and sold at a post; the stocks of certain biscuit and bread companies at another; stocks of steel and iron companies at others, and so on.

Bidding for Shares

Presuming the broker to have an order to buy Steel, at say par, he proceeds to the Steel post (No. 2 on the diagram). At that post, he will find others, sellers and buyers, each with an order to sell or buy, but the prices are likely not to be the same. By the rules of the Exchange, the first bidder for a lot of stock at a price gets the first sale for the same kind of lot at that price, the reverse being the fact with respect to an offer

to sell; the bidder or offerer must *publicly* bid or offer with enough frequency to show his desire to buy or sell. These continuous bids and offers occasion quite a volume of sound, and gives rise to the feeling in an onlooker that great confusion prevails; but such is not the fact—all is orderly, even though frequently many try to sell with only a few buyers, or many try to buy with only a few sellers. The law of supply and demand operates here as in any other market. A smaller number of buyers, as compared with sellers, puts down the price; while a smaller number of sellers, as compared with buyers, advances it.

Bidding Affects Price

For this reason, those who are interested in a property can, by buying its shares, increase the price—or, by selling, decrease it; however, an undue increase in the price of a stock reacts by inducing short selling, while an undue decrease reacts by inducing buying; these factors will be discussed elsewhere herein. As affecting transactions, we must take into account the commission cost, selling tax, the competition "from every corner of the civilized world," etc. The regulations are intended to, and do, insure the integrity of the bargain; for instance, the rules provide that bidders for and offerers of large amounts, unless met by sales or purchases of similar amounts, must take or supply, as the case may be, smaller amounts affected by such bids or offers, thus effecting a prevention of forcing the price up or down; the rule prohibiting false price making is also effectively enforced. The rules of the Exchange are formed to insure fair and open business.

The Purchase Completed

Returning, however, to the order to buy Steel; on arriving at the Steel post, the broker asks "How is Steel?" Some other broker says "par to ⅛th," meaning 100 is bid, while 100⅛ is asked; the broker thereupon bids par for 100; should it be sold him, the broker who sells says to the buyer "Sold you 100 at par," which is acknowledged, and both then send to their telephones a slip showing what each has done; the telephone clerk phones the office, and the customer is notified. Later in the day, in order to obviate any possibility of mistake, a formal comparison is made at the office of the buyer, the seller being obliged by the rules to send to that office his ticket showing the sale. If it is correct, the seller's messenger receives a ticket showing the buyer's "O. K." on the transaction. If there is an error it must now be discovered, and should be adjusted at once.

Specialists

If, however, the broker is busy at a post other than Steel, and cannot leave that post to fill the order to buy Steel, he can send the order to another broker, or may give it to a Specialist.

Specialists in a stock, like specialists in other professions, devote their entire attention to caring for orders in only those things in which they specialize. Hour in and hour out, they stand at the one post, and by careful attention and proper dealing build up a reputation which brings them the respect and business of their fellow-members. They get only the member's commission, which is less than that paid by the customer; but a mistake by a specialist has often cost him many times that commission—

loss by negligence does not fall upon the customer but upon the broker—and if the broker overlooks an order or neglects to fill it, it may prove a costly mistake.

Complaints

The volume of business done, and the stress under which at times it is done, place a heavy responsibility upon the broker; to properly care for his customers' orders are part of his risk. Complaints are sometimes made of the manner in which an order was carried out, or of the price obtained or paid. Such complaints are at once investigated by the proper Committee; the books of both selling and buying broker are open to the Committee—and it can be said with great pride that not once in ten thousand is a complaint justifiable. If a broker has been negligent and could have made a better bargain for his customer, he is required to take the loss. His position is often not enviable—he dare not exercise any discretion of his own, for if he exercises it the wrong way, *he* pays the bill, and not the customer; and in no body in the world is a surer, quicker or fairer verdict arrived at.

The Busy Broker

For every order which a broker receives, he probably also receives inquiries as to the state of the market, requests for quotations, requests for reports, and the like. On a busy day, possibly not less than from 80,000 to 100,000 messages are sent in to the Floor of the Exchange and out of it. In addition: "Between the telephone, the annunciator, and the execution of orders in the various groups, the active broker in his few hours on the Exchange works harder than most

people in twice the time. Besides executing orders, he is supposed to keep watch on what is occurring in the various parts of the room; and he must form a quick judgment as to the forces which are at work in the market, and as to the probable rise or fall of prices."*

*Work of Wall Street.

THE EXCHANGE AS A MORAL FORCE

"The very essence of trading is liberty, itself; intercourse engenders the immortal spirit of liberty from the very fact that men gather together in the interest of commerce." "The very structure of our gcvernment was evolved in that country which preserved its liberties by the efforts of its great bodies of merchants assembled together for the purpose of trading."—Senator (now Chief Justice) White, U. S. Senate, 1892.

"By their fruits ye shall know them."

Just and Equitable Principles.

The Exchange states one of its objects to be "the inculcation of just and equitable principles of trade and business." Is this a fact, or merely a high-sounding phiase? If a fact, derogation heaped upon the Exchange is undeserved; if not a fact, such hypocrisy should be unmasked.

Some Facts

In 1868, the Exchange inaugurated its requirement that corporations which list stocks upon it, must furnish statements regarding their business. These requirements have grown with the years, and far surpass those ever asked by any Government, state, or other authority; they are the basis for the reports required by the United States Bureau of Corporations, established in 1910, 42 years after the Exchange began its work.

Original Listings

The placing of a stock on the Exchange is called "listing." As to listing, the House of Representatives Committee, in 1913, said:

"Its hallmark as to the genuineness of a certificate of interest passes current everywhere, and it is rightfully supervised with jealous care, and at considerable expense to the corporations concerned."

The number of stocks and bonds listed, the average daily sales, the average interest received from bonds and the average dividends paid by stocks, are recorded at another point.

"Jealous Care"

To list its stock, a corporation must make application; must furnish information in the minutest detail as to the company itself, its property, its business, its management, its debts, its assets; it must be a going concern, and must give its business record; and these facts are to be so arranged as to place before the intending investor knowledge which is essential to him in forming his judgment and which he could gain in no other way. The Company must make certain agreements as to future information, and other matters. To secure these agreements, to arrive at their present scope, has been the work of many years, and has been no easy task; but it was a matter of "jealous care" for the good name of the Exchange which, as has already been stated, is shown in other ways, by other committees. (For Listing Requirements see Appendix.)

Statements to Stockholders

The Exchange has for many years required that companies must make annual or more frequent reports to their stockholders. The writer knows of no public authority which makes such a requirement. Notices of intended dividend payments is also required. These reports and information must be given to stockholders,

not to the Stock Exchange; the duty of directors to their *shareholders* is thus inculcated.

Stock-jobbing

Information to stockholders tends to prevent stock jobbing by "insiders." A further requirement to this effect is the one that the management of companies must not sell the stock of a constituent company without the direct assent of stockholders, thus protecting underlying assets from the possibility of being privately bought up by interested persons, with special knowledge of their value. The rule requiring companies to keep transfer offices in New York operates to prevent the holding up of deliveries, with the effect upon prices which would follow.

Safety to Holders

The agreements from companies, outlined in the Listing Requirements, have not been obtained without some pressure; the information required of Trustees on mortgages as to collaterals deposited, as to changes therein, as to information of conversions of bonds into stock and the reverse, have tended to raise the standard of trusteeship, and secure the safety of bondholders.

Transfer, Registration and Additions to to Capital

In 1869, the Exchange formulated its rule that no company shall issue a stock which is not registered by some outside institution of trust; and that no company shall increase its capitalization without having given prior notice of thirty days. On November 21, 1868, a Committee was appointed by the Exchange to consider refusing dealings to

the stock of a big railroad company "until the transfer books are placed in the hands of a reliable agency."

These two requirements have been of inestimable value. Before that day, fraudulent issues of stocks were common; today, they are unknown; then, a Board of Directors could meet, and in an hour issue stock to any amount, causing the most violent declines in the value of stock, previously bought; today, no one would dare attempt it.

Manipulation

The day is not so remote when economists publicly defended manipulation, when it was not accompanied by matched orders; today the Exchange proclaims that where a stock does not change ownership the trade is fictitious. The rule against fictitious trading is not new; it appears in the constitution of the Exchange 50 years ago as

"Fictitious sales or contracts are strictly forbidden."

Collusion Prevented

The rules require public bidding and offering at a fixed spot for each stock; that the first bidder at a price gets the first stock at that price; that a trade, objected to, cannot be printed without the consent of the Committee; that any trade can be inquired into by a Committee; that original books must be displayed; that a trade must be reported exactly as it occurs with price, time and name of other party to the trade. By these rules collusion, trickery, and unfair dealings are made difficult of accomplishment and detection almost sure. Severe penalties are inflicted upon dishonest members.

Disputes as to a Bargain Its rules require that disputes must be settled at once, by mutual agreement, or by a Committee; neither buyer not seller can repudiate a bargain; a bargain, once entered into, must be carried to its outcome, unless altered by mutual consent—neither buyer nor seller can cancel a contract, as is so often done in commercial lines, where contracts are unhesitatingly cancelled, the manufacturer never knowing that goods, perhaps specially manufactured, will be received and paid for by the person ordering them.

Business Integrity Strict business integrity is taught—when stocks are bought, they must be taken; when money is due, it must be paid. The seller can surely depend upon getting the purchase money, and can as surely make his engagements based thereon. The given word must not be broken; title in and to stock sold by the broker is guaranteed, and defects found thereafter must be made good by him; one need not spend time and money in searching and insuring title. The legal attitude, *caveat emptor*, does not obtain in the Exchange. It teaches that the *buyer is entitled to what the seller promised;* such a rule in business would revolutionize trade.

Rumors* The Exchange has a rule that the circulation of sensational rumors is detrimental to the interest and welfare of the Exchange, and is therefore punishable; slander of a stock is no different from slander of a person—and the slanderer is held up for punishment.

*In 1874 the Legislature of New York passed a law against the circulation of rumors which affect the market, but as one writer has said: "It is difficult to trace a lie to its lair." The rule of the Exchange places the responsibility on its members and enforces that responsibility.

Misleading Advertisements

The member of the Exchange is prohibited from issuing flamboyant advertisements. His every business method must be such as to win respect both for himself and for the Exchange. The use of the phrase "Member of the New York Stock Exchange" in any way to bring criticism upon him or the Exchange will result in his speedy punishment.

Quotations

The House of Representatives Committee said:

> "Quotations on its floor determine the current value of all securities there traded in, which means the securities of all the greatest corporations of the country. Such quotations are adopted by the Courts and the Comptroller of the Currency as measures of value, and upon them banks base their amount to be lent on a given security."
>
> "The quotations of prices from the market are of the utmost importance to the business world."—U. S. Supreme Court, Chrystie case, 1905.

The integrity of quotations has always been a prime matter with the Exchange; its rules are framed to make quotations honest; and its efforts have been directed to keep quotations in honest hands.

Why Exchange Keeps No Record of Quotations

The question is often asked why the Exchange keeps no record of the prices made upon its Floor, if they are of such importance. The answer to this query would seem to be that courts have decided that such a record is not evidence—it is hearsay only. The laws of New York and of the country require that every sale must be entered in the books of the brokers who make the sale, and that such books must be kept in a prescribed form;

and Courts hold that the records made by the brokers to the transaction are the real evidence, and that any entry made by some other person in some other place is a memorandum only and not evidence. It therefore will be seen that the making of a record by the Exchange would be a useless waste of time and expense, especially as the Exchange can, through its Committees, immediately get at the books of any member to ascertain the exact facts with regard to any transaction.

Care of Quotations

The Exchange, however, is most particular as to its quotations—they can only be made at the place fixed for trading; must be made openly; if objected to, cannot be printed; are put on the ticker only by an Exchange employee; the ticker is operated from a room in the Exchange Building, in direct connection with the Floor of the Exchange, and, in matter of time, not a second away from that of the occurrence, and therefore practically simultaneous with the trade; the utmost publicity is given. All persons in this country and Canada who receive these quotations from a ticker company or over the wire of a member of the Exchange, are required to agree that no bucketshop shall receive them and that they shall be put to no other illegitimate use; that the Exchange may, at any business hour, enter the office of the recipient, and observe the use made of the quotations; and that it may discontinue them at will.

Misuse of Quotations

Quotations might be misused for several reasons: First. To cheat a customer by an Exchange broker; Second. To cheat a customer by an outside broker; Third. To cheat the lender of money

by getting him to lend more money than he would, if he knew the truth about the real value of a stock.

The Exchange Broker's Customer

The customer of an Exchange broker could be cheated (*a*) by manipulation and collusion—forcing the price up or down by fictitious transactions, through which a stock looks active, but does not change ownership; or (*b*) by being coaxed into an unknown security; or (*c*) by a false report of the actual price at which a real transaction took place; or (*d*) by the failure of the broker himself. We have seen the steps taken against manipulation and collusion; we have learned of the safeguards taken when a stock is listed and thereafter, to show the character of the stock and its earning power; we have seen the rule requiring true reports, and know of the power of committees to inquire into trades and to look into the solvency of brokers—so that the likelihood of the customer of an Exchange broker being cheated seems little.

The Outside Broker's Customer

The customer of an outside broker has a certain amount of protection from the Exchange, but it cannot assume any responsibility towards him. It tries to confine its quotations to the offices of honest brokers, and to see that only honest brokers can be correspondents of its members; it, however, has no power over the outside broker except the moral force which the example of the Exchange broker sets.* The customer of the outside broker can very easily ascertain his com-

*The Exchange has recently required that wire correspondents of members shall agree to report the exact facts to their customers regarding transactions made on the Exchange.

mercial standing and honesty; can require him to give the name of the member of the Exchange who made the transaction on the Exchange and the price; can ask that the price quoted contain no added commission, but that each commission—that paid to the Exchange member and that charged by the correspondent—shall be separately stated; and in various ways can assure himself as to the situation.

The Customer of the Bucketshop

The customer of the bucketshop comes into no contact with the Exchange; such Exchange quotations as the bucketshop may post are stolen, and are arranged so as to give a false impression of the market. The bucketshop has two sets of quotations, a fast set and a slow set—the first for the proprietor, the second for the customer—and in the language of the proverb "the fool and his money are soon parted." The customer of the bucketshop has no chance, and never had one; no stock is bought for him; he is allowed to put up only the smallest margin; his margin is never "a part payment on a purchase"—it is a gift to the management.

Bucketshop Profits

Evidence before a Circuit Court of the United States (Judge Tuley) showed that one bucketshop alone, although having accepted orders amounting to 157,000,000 bushels of grain in a year, never purchased or sold a bushel in any market or on any Exchange. The bucketshop keeper's interest is to see that his customer loses his money, as thereby the "keeper" keeps it. The only time a bucketshop proprietor enters the market is to give

orders likely to cause his customers to lose. It has been shown in court that one bucketshop system took over $1,000,000 in one year from its frequenters.

War Against Bucketshops

The Exchange, since 1878, has forbidden its quotations to bucketshops, and has thereby refused many thousands of dollars of direct income, besides spending many more thousands toward their suppression. With it, however, morals were above money. The nature of bucketshops was so little understood, that they were actually licensed by the United States War Revenue Act of 1898, a fee of $50 being required of a broker, and one of $500 of a bucketshop. However, today there is a national law against these frauds.

Cheating the Lender

Since "banks base the amount to be lent on a given security" on quotations from the Exchange, the overlending on stocks and bonds by banks would be a lessening of the value of their assets as represented by the securities they carry. Correct prices on the Exchange are of great interest to banks, and other lenders of money; and manipulation, collusion and false price-making would affect the money-lender. The safeguards instituted by the Exchange, therefore, are moie than a merely selfish matter; by and through them the Exchange is performing a great business and moral function.

Blue-Sky Laws

Fraudulent stock companies have caused great losses to the public. Certain States have prohibited the sale of securities, unless they are issued by licensed companies which file information regarding themselves, intending thereby to save

citizens from investing in poor ventures. Gradually it has come to be seen that such laws have kept out many high-grade securities, while at the same time, giving, for a small fee, a sort of State approval upon the stocks of the licensed companies.*

Exchange Listings

Certain of the States, recognizing the work of the Exchange, have adopted a rule that a security listed on the Exchange is, by that fact one of the registered securities of the State; thus admitting that the inquiry conducted by the Exchange is so complete, and the experience and ability of its Committee on Stock List so broad, as to produce what the State itself seeks by its own inquiries.

The Morals of the Exchange

"A chain is no stronger than its weakest link" is a proved aphorism, and it might be said that an organization is no better than the majority of its members (it taking a majority to make its rules). The Exchange is a business organization; it realizes its obligations, and seeks to meet them; it looks after the business morals of its membership, and so far as it has the power, after the business morals of corporations whose securities are listed upon its Floor. It seeks to improve the character of speculation by admitting to membership only those of high character and proved integrity. It is not ashamed of its record.

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*The Hughes Commission was asked to recommend State certification for securities, and concluded: "It was our belief that a certificate from State officials that a Company is registered at Albany would be interpreted by a class of investors, who are most liable to deception, as a certificate of the soundness of the security, in which case the registration would do more harm than good."—Journal of Political Economy, October 1909.

An Act Detrimental

The Constitution of the Exchange contains a most unusual provision, intended to conserve the morals of the business, and is, in itself, as great a safeguard to that end, as could be devised. It reads as follows:

> "The Governing Committee may, by a vote of a majority of all its existing members, suspend from the Exchange for a period not exceeding one year, any member who may be adjudged guilty of any act which may be determined by said Committee to be detrimental to the interest or welfare of the Exchange."

By this provision, the Governing Committee has within its grasp, as far-reaching and comprehensive a power as was ever conferred upon any body of men. By its exercise, the standards of business have been elevated, improper methods abolished, a just code of ethics assured; but beyond all of these, should any new circumstances arise which demand correction, power for the purpose is at hand.

APPENDIX.

Listing Requirements.

An application for the listing of securities upon the Exchange must conform to the Requirements, and must be signed by such executive officer of the applying corporation as has been specifically authorized to do so; the application is therefore the act of the corporation.

REQUIREMENT FOR ORIGINAL LISTING—STOCK.

Every application for an original listing of capital stock shall recite:

A Title of corporation.

B (1) Date of organization; (2) name of State authorizing incorporation.

C (1) Duration of charter; (2) and of charters of constituent, subsidiary, owned or controlled companies.

D (1) History of corporation; (2) if a consolidation, merger, or reorganization, history of predecessor, and constituent, subsidiary, owned or controlled companies, or firms, showing (*a*) names, location and stock issues; (*b*) conditions leading to new organization.

E (1) Charter rights; (2) nature of business, character and amount of annual output, number of employees; (3) special rights or privileges granted directors by charter or by-laws.

F (1) Whether capital stock is full paid; (2) non-assessable; and (3) if personal liability attaches to shareholders.

G (1) Issues, dividend rate and par value; (2) total amount of each, authorized and issued; (3) increases and authority therefor, including (*a*) action by stockholders, (*b*) by directors and (*c*) by public authorities, etc.; (4) amount unissued, (*a*) options or contracts on same, (*b*) specific reservation for conversion.

H If preferred stock; (1) whether cumulative or non-cumulative; (2) preferences, including (*a*) voting power; (*b*) dividends; (*c*) distribution of assets on dissolution or merger; (*d*) redemption.

I Voting power of obligations of debt.

J (1) Dividends heretofore paid; (2) by predecessor, or constituent, subsidiary, owned, or controlled companies.

K Description of property (1) owned in fee; (2) controlled; (3) leases; (4) franchises; (5) location, nature, and acreage; (6) railroads, mileage completed, operated and contemplated, and trackage rights; (7) traffic agreements; (8) equipment; (9) character of buildings and construction; (10) timber, fuel or mining lands, water rights (see paragraphs *T* to *Z* below).

L (1) Purpose of issue; (2) application of proceeds; (3) amount of issue for securities, contracts, property, description and disposition of securities acquired; additional property acquired or to be acquired, with particulars, as required by paragraph *K*.

M (1) Mortgage, and (2) other indebtedness, (*a*) date of issue, (*b*) maturity, (*c*) interest rate, (*d*) redemption by sinking fund or otherwise; (3) similar information regarding mortgage and all indebtedness of constituent, subsidiary, owned, or controlled companies.

N Other liabilities, joint and several, (1) guaranties, (2) leases, (3) traffic agreements, (4) trackage agreements, (5) rentals, (6) car trusts, etc., (7) terms of each, and provision for payment.

O Fiscal year.

P Financial statements; (1) earnings for preceding five years if available; (2) income account of recent date for at least one year; (3) balance sheet of same date; (4) similar figures for predecessor, constituent, subsidiary, owned or controlled companies; (5) final balance sheet; (6) when reports published; (7) for corporations consolidated within a year, income account and balance sheet of all companies merged and balance sheet of applying corporation.

Q Names of (1) officers; (2) directors (classified) with residence; (3) transfer agents, and (4) registrars, with addresses.

R Location of principal and other offices of corporation.

S Place and date of annual meeting.

In addition to the above, corporations which are owners of mines must recite:

T Patented and unpatented claims, by numbers.

U (1) A geological description of the country; (2) location and description of mineral and other lands; (3) ore bodies; (4) average value of ore; (5) character; and (6) proper methods of treatment.

V History of prior workings, showing (1) results obtained; (2) production each year.

W (1) Ore reserves compared with previous years; (2) estimate of engineer as to probable life of mines; (3) probabilities by further exploration.

X (1) Provisions for smelting and concentration; (2) cost of (*a*) mining, (*b*) milling and smelting, (*c*) transportation; and (3) proximity of property to railway or other common carrier.

Y Income account, (1) receipts; (2) expenditures; (3) disposition of income.

Z Properties in process of development; if income not available, what guaranties for working capital and for completion of development.

BONDS.

An application for an original listing of bonds shall recite all information required for listing capital stock, *and*

A (1) Amount, denominations and numbers; (2) full title; (3) amount authorized and outstanding, authority therefor,

including (*a*) action by stockholders, (*b*) directors, and (*c*) public authorities, etc.; (4) whether bonds are coupon (registerable as to principal) or registered, interchangeable or exchangeable; (5) exchangeability or convertibility into other securities, and terms.

B (1) Date of issue and maturity; (2) interest rate; (3) places at, and dates for payment of interest and principal; (4) where registerable or transferable; (5) kind and standard of money, and options; (6) tax exemption; (7) whether redeemable or purchasable in whole or in part, showing (*a*) dates, (*b*) price, (*c*) duration of published notice, (*d*) disposition of redeemed or purchased bonds.

C Mortgage or indenture provisions for (1) serial issues; (2) values in United States gold coin; (3) issuance in foreign languages and (4) that the English version governs; (5) terms of exchangeability of bonds payable in foreign places for bonds payable in United States.

D (1) Security—Mortgage, indenture of trust, or other agreement; and, (2) liens; (*a*) properties covered, (*b*) mileage of railway lines, (*c*) buildings, (*d*) equipment, (*e*) securities; (*f*) rights, (*g*) privileges, (*h*) titles, (*i*) franchises, (*j*) leases, etc., (3) other liens covering same or any part of same properties; (4) guaranty and terms.

E (1) Names and addresses of trustees, and any unusual additions to or limitations of powers; (2) provision for declaration of principal due and payable in event of default or interest or other default, and waiver; (3) percentage of outstanding bonds controlling trustee.

F Purpose of issue and application of proceeds, similar to that called for by Paragraph *L* of the Requirements for Listing Stock.

G Disposition of bonds refunded and mortgage securing same.

NOTE.

The requirements for listing additional amounts and for listing certificates of deposit, voting trust certificates are not recited, being of insufficient interest in this connection and very similar to those for original applications They cover practically the information called for above, but of course, not to so full an extent.

AGREEMENTS.

For incorporation in applications:

1 Not to dispose of its stock interest in any constituent, subsidiary, owned or controlled company, or allow any of said constituent, subsidiary, owned or controlled companies to dispose of stock interests in other companies unless for retirement and cancellation, except under existing authority or on direct authorization of stockholders of the company holding the said companies.

2 To publish at least once in each year and submit to the stockholders, at least fifteen days in advance of the annual

meeting of the corporation, a statement of its physical and financial condition, an income account covering the previous fiscal year, and a balance sheet showing assets and liabilities at the end of the year; also annually an income account and balance sheet of all constituent, subsidiary, owned or controlled companies.

3 To maintain, in accordance with the rules of the Exchange, a transfer office or agency in the Borough of Manhattan, City of New York, where all listed securities shall be directly transferable, and the principal of all listed securities with interest or dividends thereon shall be payable; also a registry office in the Borough of Manhattan, City of New York, other than its transfer office or agency in said city, where all listed securities shall be registered.

4 Not to make any change in listed securities, of a transfer agency or of a registrar of its stock, or of a trustee of its bonds or other securities, without the approval of the Committee on Stock List, and not to select as a trustee an officer or director of the company.

5 To notify the Stock Exchange in the event of the issuance of any rights or subscriptions to or allotments of its securities and afford the holders of listed securities a proper period within which to record their interests after authorization, and that all rights, subscriptions or allotments shall be transferable. payable and deliverable in the Borough of Manhattan, City of New York.

6 To notify the Stock Exchange of the issuance of additional amounts of listed securities, and make immediate application for the listing thereof.

7 To publish promptly to holders of bonds and stocks any action in respect to interest on bonds, dividends on shares, or allotment of rights for subscription to securities, notices thereof to be sent to the Stock Exchange, and to give to the Stock Exchange at least ten days' notice in advance of the closing of the transfer books or extensions, or the taking of a record of holders for any purpose.

8 To redeem preferred stock in accordance with the requirements of the Stock Exchange.

9 To notify the Stock Exchange if deposited collateral is changed or removed.

TRUSTEES OF MORTGAGES.

The Committee recommends that a trust company or other financial corporation be appointed trustee of mortgages, indentures, and deeds of trust; and when a State law requires the appointment of an individual as trustee, a trust company or other financial corporation be appointed as co-trustee.

Each mortgage, indenture, or deed of trust should be represented by a separate trustee.

The Committee will not accept as trustee:

(*a*) An officer or director of the issuing corporation;

(*b*) A corporation in which an officer of the issuing corporation is an executive officer.

The trustee shall present a certificate accepting the trust and certifying (1) securities are issued under the terms of the mortgage or indenture, giving the numbers and amount certified; (2) collateral is deposited; (3) disposition of prior obligations. For additional issues of bonds, the trustee must certify that (1) increase is in conformity with terms of mortgage or indenture; (2) additional collateral deposited; and (3) disposition of prior obligations.

The company and trustee shall notify the Stock Exchange of the holding, cancellation, or retirement of securities, by redemption, through the operation of sinking fund or otherwise.

The trustee must notify the Stock Exchange if deposited collateral is changed or removed. and furnish list of collateral substituted.

A change of trustee shall not be made without the approval of the Committee.

Transfer and Registry.

Every corporation whose securities are listed upon the Stock Exchange must in accordance with the rules of the Exchange, maintain (*a*) a transfer office and (*b*) a registry office, both in the Borough of Manhattan, City of New York. The transfer agency and registrar *shall not be identical*, and both must be acceptable to the Committee. A company cannot act as registrar of its own stock.

Where a stock is transferred at the company's office, the transfer agent or transfer clerk shall be appointed by specific authority of the board of directors to *countersign* certificates, in said capacity and shall be other than an officer who is authorized to sign certificates of stock.

The entire amount of the capital stock of a corporation listed upon the Stock Exchange *must be directly transferable* at the transfer office of the corporation in the Borough of Manhattan, City of New York. When a corporation also makes transfer of its shares in other cities, such certificates shall be interchangeable, and *identical in color and form, with the New York Certificates*, except as to names of transfer agent and registrar; and the combined amounts of stocks registered in all cities shall not exceed the amount authorized to be listed.

Interchangeable certificates must bear a legend reciting the right of transfer in New York and other cities.

The registrar must file with the Secretary of the Stock Exchange an agreement to comply with the requirements in regard to registration and *not to register any listed stock, or any increase thereof, until authorized by the Committee.*

Certifications of registry must be dated and signed by an authorized officer of the registrar.

A change in the form of a security, of a transfer agency, or of a registrar, shall not be made without the approval of the committee.

The Hughes Commission.

In response to the storm of criticism aroused against the Exchange, Governor Hughes (of New York) appointed in 1908, a commission consisting of nine prominent citizens, an editor of a New York city daily newspaper and author of several works on financial subjects, two well-known merchants, a professor in Columbia University, a president of a bank, the head of the "People's" Institute, a gentleman, later State Comptroller, and two lawyers. They rendered a unanimous report, recommending certain changes in Stock Exchange rules:

First, That no business be done for clerks of banks or trust companies.

Second, That books of members be periodically examined.

Third, Certain regulation of Branch offices in New York City.

Fourth, Further measures looking toward cutting off quotations to bucket shops.

Fifth, Preservation of Clearing House sheets for six years.

Sixth, Settlement price for corners.

Seventh, Regulation of the "Curb" market.

Eighth, Further restriction as to manipulation and matched orders.

Ninth, Minimum margin rules.

Tenth, Additional restrictions as to listings.

Eleventh, That 100 shares be the trading unit.

Twelfth, That the Unlisted Department be abolished.

Recommendations one, three, four, eight, nine, ten, eleven and twelve were adopted. To provide for recommendation two, and to carry into effect recommendations eight and nine, the Committee on Business Conduct was appointed. As clearing house sheets have been judicially decided not to be primary evidence, their preservation was concluded to be useless. To fix a limit on "corners" was shown to be a greater danger than the present practice, because such a limit would afford unlimited opportunity for raiding stock values; and as the "Curb" market is an independent organization, the Exchange can only give it its moral example, but could not control it. As to recommendation four, it was shown that the Exchange had always fought bucket shops, but that the telegraph companies were not always as particular as to their clients as might be; so a new contract with them was made, and a new committee appointed (the Committee on Quotations) to see that these companies lived up to contract agreements.

Demand Collateral Loan Agreement.

Know all Men by These Presents: That the undersigned in consideration of financial accommodations given, or to be given, or continued to the undersigned by the———— Bank of the City of New York, hereby agree with the said Bank, that whenever the undersigned shall become or remain,

directly or contingently, indebted to the said Bank for money lent, or for money paid for the use or account of the undersigned, or for any overdraft or upon any endorsement, draft, guarantee or in any other manner whatsoever, or upon any other claim, the said bank shall then and thereafter have the following rights, in addition to those created by the circumstances from which such indebtedness may arise against the undersigned, or his, or their executors, administrators or assigns, namely:

1. All securities deposited by the undersigned with said Bank, as collateral to any such loan or indebtedness of the undersigned to said Bank, shall also be held by said Bank as security for any other liability of the undersigned to said Bank, whether then existing or thereafter contracted; and said Bank shall also have a lien upon any balance of the deposit account of the undersigned with said Bank existing from time time, and upon all property of the undersigned of every description left with said Bank for safe keeping or otherwise, or coming to the hands of said Bank in any way, as security for any liability of the undersigned to said Bank now existing or hereafter contracted.

2. Said Bank shall at all times have the right to require from the undersigned that there shall be lodged with said Bank as security for all liabilities of the undersigned to said Bank now existing or hereafter contracted, approved collateral securities to an amount satisfactory to said Bank; and upon the failure of the undersigned at all times to keep a margin of securities with said Bank for such liabilities of the undersigned, satisfactory to said Bank, or upon any failure in business or making of an insolvent assignment, or commission of any act of bankruptcy, by the undersigned then and in either event all liabilities of the undersigned to said Bank shall at the option of said Bank become immediately due and payable, notwithstanding any credit or time allowed to the undersigned by any instrument evidencing any of the said liabilities or otherwise.

3. Upon failure of the undersigned either to pay any indebtedness to said Bank when becoming or made due, or to keep up the margin of collateral securities above provided for, then and in either event said Bank may immediately without advertisement, and without notice to the undersigned, sell any of the securities held by it as against any or all of the liabilities of the undersigned, at private sale or Broker's Board or otherwise and apply the proceeds of such sale as far as needed toward the payment of any or all of such liabilities together with interest and expenses of sale, holding the undersigned responsible for any deficiency remaining unpaid after such application. If any such sale be at Broker's Board or at public auction, said Bank may itself be a purchaser at such sale free from any right or equity of redemption of the undersigned such right and equity being hereby expressly waived and released. Upon default as aforesaid, said Bank may also apply toward the payment of the said liabilities all balances of any deposit account of the undersigned with said Bank then existing.

4. The undersigned agree to provide all stamps which at any time may be required by law to be affixed to any evidence of indebtedness or liability of the undersigned, or any instrument held as collateral security, or any document connected with transactions between the undersigned and said Bank; and if at any time said Bank shall (and at its option it may), provide any stamps, their amount shall be added to and become part of the indebtedness of the undersigned to said Bank, and the undersigned agree to pay it forthwith with interest.

It is further agreed that these presents constitute a continuous agreement, applying to any and all future as well as to existing transactions between the undersigned and said Bank.

Dated, New York, the.............day of............191..

Witness:..................

....

Customer's Agreement.

....................................191

To

....

New York.

Referring to paragraph 956 of Chapter 500 of the laws of New York, 1913*, I/we hereby give you the consent mentioned herein, and authorize you to use any securities in my/our account in such manner as you may elect, whenever and as long as I/we am/are indebted to you.

....

Witness............................

*956. Hypothecation of customer's securities. A person engaged in the business of purchasing and selling as a broker stocks, bonds or other evidences of debt of corporations, companies or associations, who

1. Having in his possession, for safe keeping or otherwise, stocks, bonds or other evidences of debt of a corporation, company or association belonging to a customer, without having any lien thereon or any special property therein, pledges or disposes thereof without such customer's consent; or

2. Having in his possession stocks, bonds or other evidences of debt of a corporation, company or association belonging to a customer on which he has a lien for indebtedness due to him by the customer, pledges the same for more than the amount due to him thereon, or otherwise disposes thereof for his own benefit, without the customer's consent, and without having in his possession or subject to his control, stocks, bonds or other evidences of debt of the kind and amount to which the customer is then entitled, for delivery to him upon his demand therefor and tender of the amount due thereon, and thereby causes the customer to lose, in whole or in part, such stocks, bonds, or other evidences of debt, or the value thereof,

Is guilty of a felony, punishable by a fine of not more than five thousand dollars or by imprisonment for not more than two years, or by both.

Every member of a firm of brokers, who either does, or consents or assents to the doing of any act which by the provisions of this or the last preceding section is made a felony, shall be guilty thereof.

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*Extract from Chapter 500 of the laws of New York, 1913.

Customers' Margin Agreement.

....

It is agreed between broker and customer:

1. That all transactions are subject to the rules and customs of the New York Stock Exchange and its Clearing House.

2. That all securities from time to time carried in the customer's marginal account, or deposited to protect same, may be loaned by the broker, or may be pledged by him either separately or together with other securities, either for the sum due thereon or for a greater sum, all without further notice to the customer.

3. That whenever the margin on the account of the customer shall become reduced to less than .... per cent, the broker shall have the right in his discretion to close the account on the New York Stock Exchange or at public or private sale, all without further notice or demand for more margin.

....